

103

H.R. 3218, THE FEDERAL WORKFORCE RESTRUCTURING ACT OF 1993

Y 4. P 84/10: 103-25

H.R. 3218, The Federal Workforce Re...
HEARINGS
FORE THE
SUBCOMMITTEE ON COMPENSATION AND
EMPLOYEE BENEFITS
AND THE
SUBCOMMITTEE ON
CIVIL SERVICE
OF THE
COMMITTEE ON
POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
FIRST SESSION
OCTOBER 13 AND 19, 1993
Serial No. 103-25

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H.R. 3218, THE FEDERAL WORKFORCE RESTRUCTURING ACT OF 1993

WEDNESDAY, OCTOBER 13, 1993

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON COM-
PENSATION AND EMPLOYEE BENEFITS AND SUBCOMMIT-
TEE ON CIVIL SERVICE, COMMITTEE ON POST OFFICE
AND CIVIL SERVICE,

Washington, DC.

The subcommittees met, pursuant to call, at 10:10 a.m., in room 311, Cannon House Office Building, Hon. Eleanor Holmes Norton presiding.

Members present: Representatives Norton, Ackerman, Byrne, Morella, Young, McCloskey, Schroeder, Kanjorski, and Burton.

Ms. NORTON. I am pleased to greet you all, and we are especially pleased to open today's hearing, the first to be based on a proposed bill emanating from Vice President Gore's ground breaking National Performance Review.

This hearing, which begins congressional consideration of H.R. 3218, the Federal Workforce Restructuring Act of 1993, is being held jointly by the Subcommittee on Compensation and Employee Benefits and the Subcommittee on Civil Service. I am very pleased to be joined by my very good friend and colleague, Chairman Frank McCloskey, and his subcommittee Members, with whom we have always worked so cooperatively and productively, as we begin to put into effect the NPR report which was released last month.

Entitled From Red Tape to Results: Creating a Government That Works Better and Costs Less, the report proposes to reduce bureaucratic inefficiency by streamlining agency structures, procedures and personnel. The effect on the civil service will be particularly significant as the executive branch seeks to eliminate, in its words, unnecessary layers of management and nonessential staff. End quote. We are promised that these personnel reductions should enable Federal agencies to become more productive and to better serve their "customers," as they are now called. But as we proceed toward these two important objectives, H.R. 3218 will allow us to reduce the human costs that otherwise would accrue.

The administration has called for the elimination of 252,000 Federal jobs over the next five years, 12 percent of the civilian workforce. A job cut of this magnitude has the potential to devastate families and communities. The legislation before us, however, will relieve this impact. H.R. 3218 provides government-wide authority to use separation incentive payments equal to the amount of the employee's severance pay or \$25,000, whichever is

less, to encourage selected Federal workers to resign or retire from their positions voluntarily.

In addition, OPM plans to relax its rules on the use of voluntary early retirement in order to make it widely available to help meet the personnel reduction target. Early retirements are to be used in conjunction with separation incentives. These two matters lie within the jurisdiction of my subcommittee.

The bill also broadens the nature and scope of training opportunities available to employees seeking to qualify for other positions. The training provisions lie within the Civil Service Subcommittee's jurisdiction.

I want the administration to know now, while it is early, that I do not support RIFs as a way to reform the Federal Government at this time. Bear in mind that Congress has already set an enormously high goal of 152,000 for deficit reduction which will itself contribute to downsizing reform. The experience of the private sector, from which much of the NPR is drawn, demonstrates overwhelmingly that layoffs and reform do not mix. With wholesale and enthusiastic employee involvement and cooperation replaced by employee fear that they are improving themselves right out of their jobs, reform as comprehensive as that proposed by the administration simply does not occur.

An ironclad figure of a 252,000 employee reduction, which does not have a scientific basis, should not be the test of reform and must not become a barrier to reinventing government. Reform can and will occur without RIFs, but RIFs will build resistance and stop reform in its tracks. Moreover, layoffs as a way to help reform government would be particularly inept today when, despite its best efforts, the administration has not succeeded in stimulating the economy to promote real job growth, and the recovery has been characterized by productivity but not job increases.

I am not concerned that layoffs have not been ruled out in the report because I do not believe they will be necessary to reach a goal acceptable to the administration and the Congress. The proposal today must be taken as an assumption that we can and will reach a reasonable goal through the proposals we examine today.

In reinventing government, we must decline to reinvent the wheel. To the administration's credit, in the NPR report and in the buyout proposals put so quickly before us, the administration has wisely shown recognition of modern principles of workplace reform. I congratulate President Clinton, Vice President Gore and their staffs on a splendid report full of immediately practical ideas, undergirded with the wisdom we see in the bill that is before us this morning.

Scheduled to testify first are representatives of the Office of Personnel Management and the Department of Defense. From their testimony I expect to learn how the government can operate more efficiently with fewer employees, the criteria by which OMB and OPM will evaluate agency requests for separation incentive and early retirement authority, and how DOD has successfully used these authorities over the past year to avoid involuntary separations.

Then we will hear from representatives of the Federal employee unions. They will share their views on whether these programs adequately approach the legitimate concerns of the employees.

I welcome all of the witnesses and very much look forward to the testimony of each and every one of you.

I am pleased to recognize now my partner in this hearing, Chairman Frank McCloskey.

Mr. McCLOSKEY. Thank you, very much, Madam Chair. Given the quality and the scope of your statement, much of what I say in my formal statement would be redundant to yours, but if you would accept it for the record.

Ms. NORTON. So ordered.

Mr. McCLOSKEY. I appreciate that, and I will just summarize or very briefly state a few concerns or observations.

Additionally, as Chairman of the Civil Service Subcommittee, we are particularly interested in how the training incentives and programs would be administered. I think, as I know it so far, we are stating goals with little or no definition of details. That may be good, but I think we need more.

I was particularly heartened and impressed by Mr. Sturdivant's statement that I read last evening as to the concerns for ongoing health benefits, Madam Chair, allowing, I believe, an 18-month continuation under the Federal program for that.

I also think it is very important that, in the desire to get this done, that we do not lose sight of the fact that it needs to be planned, structured and administered well. I was intrigued by news of the Library of Congress policy, in essence, of stating that the first 250 people that showed up in line on any given morning would get the program, and that would be the beginning or the end of it. I would say very creative, but I would like to hear from the witnesses today as to the ultimate ramifications of an expansion of that policy for Federal efficiency.

So I thank you, Madam Chair.

Ms. NORTON. Thank you very much, Chairman McCloskey.

[The prepared statement of Hon. Frank McCloskey follows:]

PREPARED STATEMENT OF HON. FRANK McCLOSKEY, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF INDIANA

One of the most significant pieces of legislation to be considered by these two subcommittees this Congress is the "Federal Workforce Restructuring Act of 1993." Since President Clinton made a commitment to reduce the size of the Federal workforce by more than 100,000 and Vice President Gore's national performance review recommendation to reduce the workforce by more than 250,000 Federal employees, thousands of Federal workers and managers have been anxiously awaiting passage of this legislation. The "Federal Workforce Restructuring Act of 1993" would restructure training in the Federal Government and would provide voluntary separation incentives to employees who retire or resign from the Federal Government.

Offering a voluntary separation incentive should prevent the use of reduction-in-force (RIF) procedures to meet the President's goals. RIFs are extremely expensive, time consuming, provide little benefit to either an agency or an employee, and wreak havoc on the diversity of the workforce. RIFs would no doubt have to be exercised on a broad-scale to meet the administration's goals if Congress or the administrations had not made efforts to provide the separation incentive. Voluntary separation incentives will create a rightsizing rather than a downsizing by providing agencies the flexibility to restructure their workforce in a humane and cohesive manner.

The provision of the "Federal Workforce Restructuring Act of 1993," which comes under the jurisdiction of the Subcommittee on Civil Service significantly amends chapter 41 of title 5, U.S.C., by eliminating certain restrictions on employee training

in the Federal Government. The legislation would allow agencies to train employees for different positions in their own or other Federal agencies; establish the new goal of employee training to be assisting in the agency's mission and performance targets; and lift restrictions and distinctions on government vs. non-government training. These revisions called for by Vice President Gore's national performance review will be the first substantial changes to the training of Federal employees since 1958.

Currently, training in the Federal Government is limited to the official duties and responsibilities of a certain position. In addition, an employee may not receive training in non-government facilities for a period in excess of a percentage of the employees's length of service, and government training sources must be given priority over non-government sources.

Most agree that the training provisions of the Federal Workforce Restructuring Act are important, and there has been virtually no opposition to these proposed changes. I do, however, have serious concerns about the accountability of the agencies when it comes to their training activities. The legislation virtually removes OPM's oversight ability over agency training programs. One way to address this problem is to request a review or audit, by OPM, GAO, or OMB, of Agencies' training activities every 3 years to ensure that their programs are working efficiently and effectively. Furthermore, it is important that this legislation not eliminate the requirement that agencies inform employees of the criteria used in selection for training. Employees must not perceive that the selection for training is arbitrary or that there is discrimination in who is selected and who is not.

I expect that today's hearing will highlight the great importance of this legislation to Federal workers as well as provide information from the Department of Defense on their success with voluntary separation incentives in their massive downsizing. The abolishment of 250,000 employees is no simple task, and hopefully Congress and the administration will make it a little easier by enacting the Federal Workforce Restructuring Act. I would like to issue one warning, and that is I expect the Government to do more with less—I do not want to see the Federal Government contract out nearly every position or job that is abolished in this downsizing.

I would like to welcome all of today's witnesses, and look forward to their testimony.

Ms. NORTON. Ms. Byrne, have you any remarks at this time?

Ms. BYRNE. Thank you, Madam Chair. I don't have any formal remarks.

I would just like to associate myself with both the remarks of the Chairs and to go back to what Chairman McCloskey said, that planning, structure and administration of these proposals are going to be key, and right now I think there are more questions than answers. So I think we should get on with our panels.

Thank you.

Ms. NORTON. Thank you very much, Ms. Byrne.

I note we have yet to have a hearing involving OMB, a critical player, and one that has known to be an obstructionist to reform and to flexibility in agencies, and we will have a hearing where OMB and CBO will be testifying shortly.

I am pleased to call at this time Lorraine A. Green, Deputy Director, Office of Personnel Management. Ms. Green I know well from the District of Columbia where she did a splendid job which came to the attention of the President, and we are very pleased to have you with your own deep experience here. I trust you will not bring the layoff experience of the District of Columbia to the Federal Government. Thank you, Ms. Green. Go ahead.

STATEMENT OF LORRAINE A. GREEN, DEPUTY DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT, ACCOMPANIED BY LEONARD R. KLEIN, ASSOCIATE DIRECTOR FOR CAREER ENTRY, AND CURTIS J. SMITH, ASSOCIATE DIRECTOR FOR RETIREMENT AND INSURANCE

Ms. GREEN. Thank you, Madam Chair.

Good morning, Madam Chair, Mr. Chairman and Members of the subcommittees. Thank you for the opportunity to appear before your subcommittees today to discuss the administration's legislative proposal, H.R. 3218, introduced in the House by Chairman William Clay, and entitled "The Federal Workforce Restructuring Act of 1993."

Joining me at the table today, to my right, is Len Klein, the Associate Director for Career Entry, and to my left is Curt Smith, the Associate Director for Retirement and Insurance. I will enter my entire statement for the record with your permission and just read some of the highlights of the statement.

We commend both of your subcommittees for your prompt consideration of this very important legislation and are here today to explain the administration's vital need for these management tools.

As you know, the President's National Performance Review has recommended, in line with the goal of moving from red tape to results to create a government that works better and costs less, that the size of the Federal workforce be reduced. In order to minimize the impact of these changes, the President has proposed greater flexibilities in the training of government employees and authorization for Federal agencies to pay voluntary separation incentives to those employees who choose voluntary retirement or resignation.

First, let me address the government's new emphasis on training. Commitments to shift resources from management control to customer service, reduce supervisory and managerial layers, and other planned reorganizations will have a significant impact on Federal agencies and employees. Many employees will change jobs and have to be retrained to perform their new responsibilities. Therefore, employee retraining will be increasingly necessary as we seek to create a multi-skilled workforce suited to rapidly changing technology. Greater flexibility in training will be essential to accomplishing this.

The President's proposal removes unnecessary and narrow restrictions on employee training. We propose to use training to advance both the employee's performance and organizational mission accomplishment.

Further, we propose to make available the most cost-efficient and effective training available, whether offered by the government or the private sector, by removing the current restrictions on the use of private sector training sources.

Now, let me turn to the need for voluntary separation incentives. Agency heads currently have a range of tools and incentives to assist them in restructuring their workforce. Depending upon the particular needs of the organization, they may rely on normal attrition and, when authorized by OPM, early retirement to reach lower employment levels. As a last resort, agencies may use involuntary separations through reduction in force procedures.

However, another more humane option is possible. Voluntary separation incentives, or buyouts, have proven very effective in reducing employment levels in the Department of Defense, the Central Intelligence Agency and legislative branch agencies. Now there are other government agencies that we are going to discuss today that also have an urgent need for this tool to enable them to restructure.

The legislation that we are discussing today will help to achieve necessary personnel reductions, again, as I stated, in the most humane way possible, by providing incentives to employees who voluntarily choose to retire or resign in exchange for a cash incentive.

In order to reduce Federal personnel levels with minimal disruption and financial hardship to employees and their families, Federal agencies would be authorized to pay a voluntary separation incentive to employees who retire or resign during a three-month window. The amount of the voluntary separation incentive is the amount the employee would be entitled to receive as severance pay, or \$25,000, whichever is less. This is the same amount that has been provided in the DOD and other congressionally authorized separation incentive programs cited earlier.

The 90-day window during which employees would be able to elect to leave and receive their incentive would be designated by each agency head and may occur at any time between the date of enactment of this legislation through September 30, 1994. Agency heads would designate components of the agencies, occupations, and particular geographic locations where separation incentives would be offered. The administration would expect agency heads to obtain approval from the Office of Management and Budget of their plans for use of the voluntary separation incentives.

Agencies would have the authority to delay separations of particular employees for whom separation incentives have been authorized for up to two years after the end of the 90-day window, where necessary, to ensure that performance of the agency's mission is not impaired.

To ensure that the voluntary separation incentives produce actual cuts in staffing levels, employment in the executive branch would be reduced by not less than one full-time equivalent position for each two separation incentives paid.

I want to, today, stress the voluntary nature of this program. Employees may not be coerced to leave against their wishes. Under implementing regulations that OPM will issue, agencies may not use any personal bias to grant or deny an incentive to any individual employee.

Current law requires agencies to obtain the approval of OPM to offer their employees early retirement. To ensure the complimentary use of early retirements with separation incentives, OPM will adopt new procedures to facilitate agency requests and flexibility in their use. This will include matching the effective dates of the early retirement authority with the separation incentives window.

These voluntary separation incentives would be fully funded from agencies' existing appropriations. To make them cost effective in fiscal year 1994, the incentives need to be available as early as possible in this fiscal year. More significantly, separations resulting from the payment of incentives are expected to produce substantial savings in fiscal year 1995, helping agencies to reach that year's budget reduction targets.

A final feature of this legislation would rectify a long-standing problem for the Civil Service Retirement System, namely the underfunding of early retirements. The current annuity reduction of 2 percent for each year the retiree is under age 55 is insufficient to cover the added cost to the system of the early retirement. Our

proposal would require agencies to pay a one-time additional charge of 9 percent of the employee's final annual salary for each employee who retires early under CSRS. This would be a permanent change in law and would apply to all future CSRS early retirements.

The administration urges Congress to enact H.R. 3218 as soon as possible. I want to thank you for this opportunity to present OPM's views on this important legislation, and my staff and I will be pleased to answer any questions the subcommittee may have.

[The prepared statement of Ms. Green follows:]

PREPARED STATEMENT OF LORRAINE A. GREEN, DEPUTY DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

Madam Chair, Mr. Chairman, and members of the subcommittees: Thank you for the opportunity to appear before your subcommittees today to discuss the administration's legislative proposal, H.R. 3218, introduced in the House by Chairman William Clay, and entitled the "Federal Workforce Restructuring Act of 1993." I commend both of your subcommittees for your prompt consideration of this very important legislation and am here today to explain the administration's vital need for these management tools.

As you know, the President's national performance review has recommended, in line with the goal of moving from red tape to results to create a government that works better and costs less, that the size of the Federal workforce be reduced. In order to minimize the impact of these changes, the President has proposed greater flexibilities in the training of Government employees and authorization for Federal agencies to pay voluntary separation incentives to those employees who choose voluntary retirement or resignation.

First, let me address the Government's new emphasis on training. Commitments to shift resources from management control to customer service, reduce supervisory and managerial layers, and other planned reorganizations, will have a significant impact on Federal agencies and employees. Many employees will change jobs and have to be retrained to perform their new responsibilities. Therefore, employee retraining will be increasingly necessary as we seek to create a multi-skilled workforce suited to rapidly changing technology. Greater flexibility in training will be essential to accomplishing this.

So that the Federal Government is better positioned to carry out its many critical missions during and following the implementation of the national performance review recommendations, restrictions on the training of Government employees must be reformed. The President's proposal removes unnecessary and narrow restrictions on employee training. We propose to use training to advance both the employee's performance and organizational mission accomplishment. In addition, this policy will benefit the Government by creating an environment more conducive to meeting agency goals and missions.

Further, we propose to make available the most cost-efficient and effective training available, whether offered by the Government or the private sector, by removing the current restrictions on the use of private sector training sources.

Now, let me turn to the need for voluntary separation incentives. Agency heads currently have a range of tools and incentives to assist them in restructuring their workforce. Depending on the particular needs of the organization, they may rely on normal attrition, and, when authorized by OPM, early retirement to reach lower employment levels. As a last resort, agencies may use involuntary separations through reduction in force (RIF) procedures. However, another more humane option is possible.

Voluntary separation incentives, or buyouts, have proven very effective in reducing employment levels at the Department of Defense (DOD), where such payments were authorized under the National Defense Authorization Act of 1993. Similar authority has been enacted for the Central Intelligence Agency (CIA) and for legislative branch agencies. Currently, bills to give such authority to the National Aeronautics and Space Administration, the U.S. Forest Service, and foreign service agencies are pending in the Congress. Other Government agencies now also have an urgent need for this tool to enable them to restructure.

No one now doubts that the deep budget reductions envisioned by the President and the Congress will result in significant personnel cuts in the Federal workforce. The legislation that we are discussing today will help to achieve these necessary personnel reductions in the most humane way possible—by providing incentives to

employees who voluntarily choose to retire or resign in exchange for a cash incentive. While it is too early to predict whether reductions in force (RIFs) would be necessary even with the use of voluntary separation incentives, there is no doubt that RIFs would be unavoidable without the voluntary separations this legislation will produce.

In order to reduce federal personnel levels with minimal disruption and financial hardship to employees and their families, Federal agencies would be authorized to pay a voluntary separation incentive to employees who retire or resign during a three-month "window." The amount of the voluntary separation incentive is the amount the employee would be entitled to receive as severance pay, or \$25,000, whichever is less. This is the same amount that has been provided in the DOD and other congressionally authorized separation incentive programs cited earlier.

The 90-day window during which employees would be able to elect to leave and receive the incentive will be designated by each agency head and may occur at any time between the date of enactment of this legislation through September 30, 1994.

Eligible employees would be those who have a permanent appointment and at least one full year of service. Reemployed annuitants and those eligible for disability retirement would be excluded.

Agency heads would designate components of agencies, occupations, particular geographic locations, etc., where separation incentives would be offered. The administration would expect agency heads to obtain approval from the Office of Management and Budget (OMB) of their plans for use of the voluntary separation incentives. Agencies would have the authority to delay separations of particular employees for whom separation incentives have been authorized for up to two years after the end of the 90-day window where necessary to ensure the performance of the agency's mission.

To ensure that the voluntary separation incentives produce actual cuts in staffing levels, employment in the executive branch would be reduced by not less than one full-time equivalent position for each two separation incentives paid. I want to today stress the voluntary nature of this program. Employees may not be coerced to leave against their wishes. Under implementing regulations that OPM will issue, agencies may not use any personal basis to grant or deny an incentive to any individual employee.

H.R. 3218 would require the full repayment of the separation incentive by the recipient if he or she is reemployed by the Federal Government within two years of separation. This requirement could be waived in exceptional circumstances related to difficulty in recruiting. The bill also extends this repayment obligation to those receiving voluntary separation incentives under the DOD and CIA programs.

We envision the widespread use of the voluntary early retirement authority in conjunction with the separation incentives. Current law requires agencies to obtain the approval of OPM to offer their employees early retirement. To assure the complementary use of early retirements with separation incentives, OPM will adopt new procedures to facilitate agency requests and flexibility in their use. This will include matching the effective dates of the early retirement authority with the separation incentives window.

These voluntary separation incentives would be fully funded from agencies' existing appropriations. To make them cost effective in fiscal year 1994, the incentives need to be available as early as possible in this fiscal year. More significantly, separations resulting from the payment of incentives are expected to produce substantial savings in fiscal year 1995, helping agencies to reach that year's budget reduction targets.

A final feature of this legislation would rectify a long-standing problem for the Civil Service Retirement System (CSRS), namely the "underfunding" of early retirements. The current annuity reduction of 2 percent for each year the retiree is under age 55 is insufficient to cover the added costs to the system of the early retirement. Our proposal would require agencies to pay a one-time additional charge of 9 percent of the employee's final annual salary for each employee who retires early under CSRS. This would be a permanent change in law and would apply to all future CSRS early retirements.

The administration urges Congress to enact H.R. 3218 as soon as possible. Thank you for this opportunity to present OPM's views on this important legislation. I would be pleased to answer any questions the subcommittees may have.

Ms. NORTON. The Ranking Member has come, and I wonder if she has any opening remarks.

Mrs. MORELLA. Thank you, Madam Chair and Mr. Chairman. I am going to try to condense some opening comments, but I think it is appropriate to make a statement about this joint hearing.

It is clear that this bill which we are discussing, which Chairman Clay introduced on behalf of the administration, has far-reaching and significant impact, as evidenced by the fact that this is a joint hearing, with the holding of the two subcommittees.

The goals of the legislation are laudable: first, to eliminate the narrow restriction on employee training; and, second, to use separation incentive payments to encourage employees, as you have stressed, to voluntarily resign or retire from Federal service.

Indeed, should qualified Federal employees avail of the incentive up to the \$25,000 to leave Federal service, those who continue to carry out the mission of the agency will have to assume new and varied responsibilities. For this, they will need retraining, and I note you have mentioned that in your statement.

I applaud the idea of expanding an employee's training to advance the mission of the organization and to advance the employee's professional abilities. I also recognize the advantage of permitting both the private and public sectors to compete to conduct this training. This will, I believe, create many private sector jobs and efficiency in government.

The recommendation of the National Performance Review is to streamline the government and simultaneously to reduce the national deficit. While I strongly support reduction of the deficit, I am still startled and concerned by the reductions in staff that are targeted for the Federal workforce. I just wonder about where that specific target of 252,000 has come from and whether it would disproportionately affect lower grade wage earners just to reach the target.

I have asked many people about the origin of the 252,000, and the most consistent answer I have had is, "I don't know." The most creative answer was, "to bring the number of Federal employees below 2 million." I would appreciate our witnesses also trying to address that concern as they testify.

I have noted with interest the success of the Department of Defense buyout program, which is the foundation for this legislation. I believe this standard is a more realistic one than comparing private sector buyouts to the public sector. Though we can profit from many private sector initiatives, such as total quality management, I think that we must recognize that the public sector mandate is significantly different than the private sector.

So I just would like to, when the appropriate time occurs, Madam Chair and Mr. Chairman, to be able to ask some questions of the witnesses, but thank you for the opportunity of offering an opening statement.

Ms. NORTON. Thank you, Mrs. Morella.

I have many questions. However, the way I am going to handle the hearing this morning is to ask a few of mine, then go to the Ranking Member, then go to Mr. McCloskey, then go to Ms. Byrne and come back around, rather than ask all my questions at the beginning.

Ms. Green, the Voluntary Incentive Separation Payment, that is VSIP, bills for DOD, USPS, CIA and NASA all expressly have as

one of their purposes the avoidance or minimization of the need for involuntary separations due to a reduction in force. H.R. 3218, however, is only expressly directed at, and I am quoting, assisting in the restructuring of the Federal workforce while minimizing involuntary separations.

Why the change in the boilerplate language, which obviously no longer is boilerplate, is pregnant with meanings, as far as this committee is concerned?

Ms. GREEN. I don't think there was any intention in changing the language, Madam Chair. The intention is that any of the reductions, the separation incentives that would be done, will use that same language. So that is really not an issue with us as far as the language is concerned.

Ms. NORTON. Well, it is an issue for this committee, because the language is different, and we look at language the way courts do.

Ms. GREEN. Yes.

Ms. NORTON. That language has meaning, and meaning must be attached to that language. So, Mrs. Morella has spoken about the 252,000, when you consider what clearly is no scientific basis, whatever one's guesstimate is, talk of RIFs in that context, and using this language does not help this matter.

Have you contemplated how many reductions the administration anticipated to result from this measure before us and over what period of time?

Ms. GREEN. Using the experience we have had with DOD and the other agencies, we anticipate that, for the early retirements, about 20 percent of the eligibles would take the incentive payments, and that would amount to about over 25,000 employees. And then, for the optional retirees, we have an estimate that about 42 percent, or 28,000, would take the VSIP, and these are in the nondefense agencies. And also the defense agencies would still have their ongoing initiatives.

So totally we are projecting between 60,000 and 100,000 persons who would take advantage of this incentive.

Ms. NORTON. In the administration's position, will the measures you propose avoid or minimize the need for involuntary separations due to reduction in force or will RIFs be necessary, in your opinion, to reach the 252,000?

Ms. GREEN. No. We anticipate that the reductions, the voluntary separation incentives, would reduce the workforce sufficiently. We are not looking to do any involuntary separations at the present.

Ms. NORTON. As the bill is currently drafted or—first, let me indicate that you were clear that coercion of workers will not be permitted. But as the bill is presently drafted, there are no express protections against worker coercion. Does the administration plan to implement such protection administratively or do such protections need to be included in this bill?

Ms. GREEN. We had planned to do that administratively in our implementing regulations from OPM and our instructions to the agencies.

Ms. NORTON. When the Postal Service implemented its voluntary separation incentive program it failed to adequately target its early-out and separation pay offers and therefore received 48,000 acceptances to reduce only 30,000 positions.

How does the administration propose to ensure that the agencies adequately plan and target early-out and VSIP offers under this bill?

Ms. GREEN. Well, we are going to give the agencies as much flexibility as possible. We have a group of people who will be working directly with the agencies. We are going to help them by providing information to them so that they will be able to offer the incentives in the areas that they anticipate will need to be reduced because of their new mission and goals. They will not have incentives offered in areas where they would have a large number of persons they would have to replace.

So it depends upon the particular agency's mission, and, as I said, we would be working with them to ensure that they do the best estimates that they can.

Ms. NORTON. Have you or anybody on your staff talked with the people who handle that, those buyouts, in preparing this testimony?

Ms. GREEN. Yes. I am sure some of the staff—

Mr. KLEIN. Yes, Madam Chair, we have a downsizing support staff in OPM. We have talked to DOD and the Postal Service and others who have been using these to get as much intelligence as we can to share with the agencies. We have been briefing their retirement personnel and staffing people during this week, and we will be continuing next week.

One of the provisions the bill also has that give agencies flexibility is the ability to put off for two years the separation of employees that will be critical to the agency's mission. As an example, at OPM we know our retirement group will be hit with a significant workload as a result of this bill. We will be putting off the implementation of the incentives in the retirement group so we can spread out that impact.

We also will permit agencies to identify how many retirements it needs to meet its mission and cut it off at that point. Unlike the Postal Service, we will have a target, if they wish one in the agency. And then, say, when we reach 2,000 or 1,000, we will cut it off and take all employees who have signed up at that point.

So we want to have as many tools as possible for them to use to control that.

Ms. NORTON. Given the experience, and rather considerable experience some agencies have had, with the success and the experience that the Postal Service had, with some problems, we would expect that this would be done almost perfectly, frankly. There will be no excuse given, with what we already know and the experience we have already had, for not drawing on that experience to make this work very well, and we are concerned about that.

Mr. KLEIN. We certainly hope so.

Ms. NORTON. I would like to move now to the Co-chair of this hearing, Mr. McCloskey, for questions before I return.

Mr. MCCLOSKEY. You kind of surprised me, Madam Chairwoman.

Some of the ideas for flexibility and greater attention to such items as health-care benefits that are going to be suggested this morning by President Sturdivant, John Sturdivant—John mentions

that there should be provision for up to 18 months to continue the coverage under the Federal health program.

Secondarily, I think—not necessarily secondarily, but in order of me bringing it up, some more enhanced right or security as far as transfer into other agencies. I understand it is very discretionary now. There is not too much in the way of cross-agency transfers.

If you can handle those, Ms. Green, and then I have one or two other questions and then we will go on to someone else.

Ms. GREEN. We certainly can look at the Federal health benefits provisions. Right now, Federal retirees can continue FEHB coverage into retirement if they have had five years of coverage immediately before retiring. We can certainly look at the 18 months' extension. I don't know that we have looked at it and rejected it. So we can certainly look at that.

As far as the transfer between agencies, the training component of this bill will certainly assist us in being able to facilitate transfers, because the staff—

Mr. MCCLOSKEY. So you could train for a particular duty in another agency, we understand.

Ms. GREEN. Yes. Part of the restrictions on training now is that employees can only be trained in the job that they are in or in some job that their particular classification makes them qualified to be trained for. This training bill, the portion of this bill that deals with training, will enable employees to have an expanded training ability and that, too, would encourage transfer between agencies where we have a need in one agency and a surplus in another.

Mr. MCCLOSKEY. How about the idea of a stated preference for cross-agency hiring, provided the individual meets the qualifications?

Ms. GREEN. I am sorry. I didn't understand the question.

Mr. MCCLOSKEY. The idea there would be a priority for present employees in other agencies and some administrative enforcement of that. I guess you could have points or some administrative sizing component of it, probably much as in the veterans area.

I understand, quite frankly, the flexibility is there to do that now, but it does not happen very often in my understanding. So is there any way to make that, for lack of a better term, semi-mandatory?

Ms. GREEN. The priority placement?

Mr. MCCLOSKEY. Yes.

Ms. GREEN. Yes, we can look at putting some language in priority placement initiatives. Yes. That is doable.

Mr. MCCLOSKEY. How about budget and administration of the training components? Has there been any thought yet to just—how much money that will take in any particular department or agency, if nothing else, as a function of their budget?

Ms. GREEN. I don't know that the individual agencies have had an opportunity yet. They are now in the process of formulating and finalizing their 1995 budget submissions. So, within their own budget submissions, within whatever they have determined is their organizational mission, they would have the training money available, and they would have to redirect it from other means to make

it available within their agencies. We don't anticipate any new funding for training.

Mr. McCLOSKEY. Mrs. Morella stated the concern very well, and I know that the Chair is also very concerned as to this 250,000 figure. Are there any estimates, generally speaking, as to what particular agencies and what particular levels of performance would be so targeted?

I guess the corollary on what I am asking is, is there any real thought as to the expenses that will be involved in any particular agency to implement this policy?

Ms. GREEN. Not that I am aware of. The cost factor would come into play for each agency in its submission to OMB to get the approval for their incentives. So I don't think there is any set number that they have been given.

Mr. McCLOSKEY. So we cannot really say generally—we cannot get a general estimate yet of where these 250,000 are going to break down as far as agency, function and level yet?

Ms. GREEN. No, I would say not.

Mr. McCLOSKEY. Would your department, your agency have any problem with some kind of review provision in the legislation saying that the GAO analyze the implementation of the training component within a reasonable amount of time to see how it is operating and being administered?

Ms. GREEN. No, we do plan on doing that, but we would not have a problem with any other entity analyzing that.

Mr. McCLOSKEY. I see.

Well, thank you very much, Ms. Green.

Ms. NORTON. Thank you, Chairman McCloskey.

Mrs. Morella?

Mrs. MORELLA. Thank you.

Ms. Green, you undoubtedly have heard a whole myriad of suggestions that have been offered, and I would just simply like to ask you to voice your opinion about a few that I am just going to briefly mention.

What do you think about placing the buyout amount into an IRA; allowing it to be put into an IRA?

Ms. GREEN. I am not sure how that would affect—Curt Smith could answer. We would need to consult the IRS on that.

Mrs. MORELLA. It may be worth considering so maybe you can make a note and get back to us.

Ms. GREEN. I would be glad to contact the IRS and provide you with a copy of our inquiry, as well as any reply we receive from them.

[The information referred to follows:]

The purpose of this letter is to request your advice on certain tax questions raised by pending legislation.

In testimony before the House Post Office and Civil Service Committee, regarding H.R. 3218, the "Federal Workforce Restructuring Act," Ms. Lorraine Green, Deputy Director of the Office of Personnel Management, advised the Committee that it would be necessary to obtain advice from your agency before we could answer certain questions. If this bill were to be enacted, Federal agencies would be authorized, over a specified period of time, to offer a lump-sum benefit, not in excess of \$25,000, to individuals who left Federal service, either by resignation or retirement. The source of the lump sum would be the agency's administrative appropriation.

We understand that if the lump sum were paid directly to the employee, it would be immediately subject to Federal income tax. The committee has asked, however,

if certain options might be made available to avoid immediate taxation. Among the options being discussed are:

Directly depositing, or rolling over, the lump sum into an individual Retirement Arrangement (IRA) as described at 26 U.S.C. 408.

Directly depositing the lump sum into a voluntary contributions account, as described at 5 U.S.C. 8343.

Directly depositing the lump sum into the employee's Thrift Savings Plan account, as described at subchapter III of chapter 84 of title 5, United States Code.

If none of the above options would permit the employee to defer taxation of the lump sum, please advise us on what legislative amendments would be required to permit such deferral in one or more of the above options.

Thank you very much for your assistance in this matter.

Mrs. MORELLA. Another suggestion. Your opinion on the fact that the buyout amount should be placed in the volunteer's Civil Service Retirement System account, the CSRS account. Any feeling about that or opinion about that?

Ms. GREEN. That would not be allowed under current law, but we could take a closer look at that.

Mrs. MORELLA. Great. And would you get back to us?

Ms. GREEN. Yes.

Mrs. MORELLA. Good.

[The information referred to follows:]

The voluntary contributions accounts under the Civil Service Retirement System are designed to provide a vehicle for retirement savings for active employees. Therefore, only current employees can contribute to this type of account. A voluntary contributions account is paid out in the form of an additional annuity at the time of retirement, unless the individual withdrew the money in the account earlier. We do not believe it would be consistent with the purpose of these accounts to allow separated employees to contribute to them. However, those receiving a voluntary separation incentive would have many other investment opportunities from which to choose.

Mrs. MORELLA. Also, your opinion on waiving the 2 percent per year personal annuity for retirement below the age of 55.

Ms. GREEN. That, again, would be a very costly proposal. We have, in this bill, deliberately tried to stay away from any revisions of the retirement act itself until we can further analyze the deficits in those areas. But that is a very costly proposal.

Mrs. MORELLA. So you would not necessarily rule it out, but you see it as a problem because of the cost?

Mr. KLEIN. We are told that would produce paygo issues definitely. And the cost—for example, in the current bill, we are asking a 9 percent payback to the retirement fund for the amount that is not available in the fund for the current bill. This would produce 52 percent payback as opposed to 9 percent.

So it is very costly to undertake that kind of incentive. In fact, it would cost more, probably, than the agencies have for the rest of the year in their appropriations.

Mrs. MORELLA. Finally, for this round of questioning, your opinion on service performed by air traffic second level supervisors and managers that it be creditable for retirement purposes. Have you considered that and do you have an opinion on it for the service performed by them—maybe you have not thought about it. I thought these were all around. I guess not.

Ms. GREEN. No.

Mr. KLEIN. We have attempted to avoid anything that produced pay-as-you-go issues for the obvious reasons. And there were many suggestions as we went through this that produced excessive costs

to agencies. So we attempted to keep the bill strictly to what has been approved by Congress so far for about half the government and improve upon that bill by adding the 9 percent and some of the restrictions on coming back into the public service.

Mrs. MORELLA. But you are not ruling these out? You really have not thoroughly considered them at this particular point? You are concerned about possible cost, pay-as-you-go situations. Would you get back to us on those four points?

Mr. KLEIN. Certainly.

Mrs. MORELLA. Thank you.

[The information referred to follows:]

The administration is still reviewing the issue of retirement credit for service as a second-level supervisor or manager in air traffic control. A response to Mrs. Morella will be provided at a later date.

Mrs. MORELLA. And I will yield back at this point, Madam Chairwoman.

Ms. NORTON. Thank you, Mrs. Morella.

Ms. Byrne.

Ms. BYRNE. Thank you, Madam Chairwoman.

Ms. Green, you talk about the underfunding of the early retirement, and there will be a one-time agency contribution of 9 percent coming out of salaries and expenses to accomplish these early buyouts. What if they don't have 9 percent? Does that mean we will have to have some furloughs to accomplish those kinds of savings in budgets?

Ms. GREEN. No. If they don't have the funding for the incentives, they should not offer the incentives.

Ms. BYRNE. That brings up a different question. It seems that we are putting the incentives before we are finding the funding, and my experience with NASA in this has been just that, when we talked earlier about planning and structure, my deepest concern at this point is that we are seeing large aggregate numbers out there that we need to cut X number of slots, employees, and not really looking at the other end of how we are going to replace them, if they are going to be replaced, if there is enough money in the total budget.

We don't have all the appropriations done, so how can these agencies count on monies that are not even there in some instances?

Ms. GREEN. Well, the key to this being a cost-effective proposal is that the agencies do it as early in the fiscal year as they possibly can because they have money in their budgets to fund employees' salaries. And the cost of the incentives would be paid out of employees' salaries. So the earlier in the fiscal year they could do this the more savings they would realize and the more money they would have available. But an agency, of course, could not offer more incentives than it had money to pay.

Ms. BYRNE. So you are telling me that, absolutely, that an agency could not go into a furlough situation to make up that 9 percent?

Ms. GREEN. No, they should not. And that, again, goes back to the OMB submission, the requirement that they justify to OMB their incentives and their means of financing those incentives.

Ms. BYRNE. Well, on that OMB submission on page 5 of your testimony, it is worded oddly, and maybe you can help me. It says,

the administration would expect agency heads to obtain approval from OMB. Why does that not say must?

Ms. GREEN. It must. It should say must.

Ms. BYRNE. All right. That is all I have right now, Madam Chairwoman.

Ms. NORTON. Thank you, Ms. Byrne.

Now, Ms. Green, I am concerned about how this is going to be paid for, because cuts in discretionary spending are not scorable. What is being proposed here clearly has Budget Enforcement Act implications.

The CBO indicates to us that in total spending and in total direct spending the costs incurred by the administration proposal would be \$121 million in 1994 or \$30 million in 1995 and \$123 million in 1996. While in 1997 there would be reductions of \$76 million and in 1998 reductions of \$79 million.

Now, what we have here is CBO indicating pay-as-you-go problems and OMB saying no. What do you say?

Ms. GREEN. We say no, also. And I think it has a lot to do—and some of the staff may be better versed than myself on this—a lot to do with how they score these.

Ms. NORTON. But you have a problem because the administration has said from the beginning that it would live by the word of CBO, if not God, and, therefore, CBO's numbers, at least in the past, have preempted OMB numbers. We have some CBO numbers here that show direct costs, which would lead me to ask what would you cut to pay for this buyout?

Ms. GREEN. And the salaries that are budgeted in the agencies' budgets would be used to pay each of these items. The key is being able to have the right numbers of persons that you offer the incentives to and doing it as early in the fiscal year as possible.

Ms. NORTON. We see annuity payments here—let me give you an example. We see annuity payments of \$248,000,000 in 1994. You have reduced that, by receipt of the 9 percent payment, to \$127 million but are left with direct spending, according to CBO, of \$121 million. You still are left with direct spending money that, under the budget agreement of 1990, would require that you find a way to pay for it. How are you paying for it, given these figures?

Ms. GREEN. Ms. Norton, that is one issue we would have to get back to you on. That is a little out of our area of expertise. If we could get back to you on that. I know you are anxious to have that as a basis for continuing.

Ms. NORTON. I would appreciate it since, as you can see, it is a giant stumbling block to what otherwise would appear to be an important way to avoid problems for employees. Now you have problems with budget.

[The information referred to follows:]

OMB has determined that the bill does not violate pay-as-you-go procedures.

Under the Budget Enforcement Act's pay-as-you-go procedures, any direct spending must be offset by cuts or face sequestration. OMB, which determines whether a bill violates pay-as-you-go provisions for sequestration determinations, has ruled that the bill, like the DoD and CIA separation packages previously approved by Congress, does not violate pay-as-you-go rules. OMB has determined that since the bill does not change the law for regular or early retirement, there is no direct spending (no pay-as-you-go violation).

Over the long term the bill is cost neutral in the mandatory retirement program, as earlier annuity payments and foregone employee contributions are offset by reduced annuity payments and the one-time nine-percent agency contribution.

Ms. NORTON. In the proposal, it states it is the administration's intention that agencies develop VSIP plans which cannot be implemented without OMB approval. Now, you indicated to Ms. Byrne that that approval will be required. I must wonder then why that is not in the bill, getting back to language and how people do not use language without intending its consequences.

Ms. GREEN. Ms. Norton, again, I will look at that language. There was no intent not to be specific about it. There will be OMB approval.

Ms. NORTON. I hope OMB will find a way to approve that expeditiously and—as in keeping with the necessary flexibility.

But, again, given the Postal Service experience, we can see the need for some oversight, enlightened oversight, over what the agencies are doing. They will certainly need guidance. You will be giving them that, of course, but this is a government-wide program, and OMB will be a player, and it will be interesting to hear from DOD on the role OMB played there.

I would like to take some time to look at the 9 percent agency contribution and exactly how it offsets the cost of an early retiree's annuity and if it does so at all.

How did OMB determine that the 9 percent that you have used throughout your testimony was an accurate reflection of the cost of early out to the Federal Government? What assumptions were used? How are we to evaluate it?

Ms. GREEN. We can certainly provide to you our standard actuarial assumptions taken from actual experience of CSRS from 1975 through 1989, and this is to calculate the present value of cost to the civil service retirement fund of each of the average early retirements.

[The information referred to follows:]

When compared to normal retirements, early retirements have an adverse effect on the retirement fund when viewed from the standpoint of what employees contribute to the cost of the overall benefit provided. While an early retirement occasions a smaller benefit, the benefit begins sooner and the retirement fund loses the income it would have received in the form of employee contributions had the employee continued working. Our actuaries have estimated the net effect of all this to be 9% of the average early retiree's final salary based on an analysis of all early retirements that occurred from 1975 to 1989. Since agency determinations are the basis for early retirement authority, it is appropriate for agencies to bear this cost.

Ms. NORTON. Now, to the extent that the 9 percent is based on past experience with early retirements, this would be a past in which a \$25,000 incentive bonus did not exist. Therefore, we were left to wonder how would you measure the cost of early retirements to occur under this bill?

Ms. GREEN. Well, the \$25,000 is going to come out of the agency's appropriated budget. It will not affect the retirement fund. What will affect the retirement fund are the numbers of persons who are going to retire now because we are offering the incentive bonus. But the \$25,000 comes out of one pot, which would be the appropriations, and then the 9 percent would be to help the retirement fund for the number of early retirees.

Ms. NORTON. Let me try again. I understand they come out of separate pots. But in the past, and you say the actuarial experience from the past, and I understand actuarial experience from the past, but you did not have this \$25,000 incentive bonus. Would not that affect the way you apply or derive a contribution figure?

Ms. GREEN. Yes. I will ask Curt Smith to respond to that question, Madam Chair.

Mr. SMITH. It is a difficult question, because we have worked, as our actuaries must, based on the past and what is known, and there are some new things here. However, we will not know until it is over what the effect of those new things will be.

Ms. NORTON. There must be a better way to do it than that.

Mr. SMITH. We can do it retroactively. I don't know how you do it prospectively. We have had a lull in retirements for some time, as we think our workforce anticipates that something like this will happen. It is entirely possible when it is over that our retirees will look exactly like they have looked historically, because it is a long view we take and not just a 2 or 3 year period.

We are comfortable that the experience we have had—and the experience we are talking about here is the age and service of people—that is, what is important to the cost of a particular early retirement—will not be radically different because of this phenomenon of people waiting to retire to see if there will be an incentive. But I cannot guarantee that there will not be different things that, if we look at it in 5 years, would cause us to do it differently.

Ms. NORTON. But yet you come up with the 252,000 figure and without that experience. So you can understand our skepticism about numbers as high as that when, as you, I think, appropriately concede, you are working from, at best, the notion that there is a buildup of retirees who have been waiting for this opportunity. We do not even know what that buildup is.

And apparently, and interestingly, over the years of experience we have not come up—or you have not come up with a way to project what the number would be and, therefore, to derive from that contribution and other figures such as savings.

Is that right, that we have not developed a mathematical model that could help us out in such projections, so that a figure like 252,000 would not come, as it does, from the premise and not the recommendations of the NPR report?

Very interesting, we note that—and nowhere is 252,000 mentioned. And I congratulate the report on that, because that enhances its credibility, that Vice President Gore's premise denied the recommendations in the body of the report. And I also congratulate you that you have not put before us a bill that would codify, or attempt to codify, I should say, the 252,000 number, which would then require great evidentiary undergirding.

But what I asked about all of this was whether or not any kind of models, recognizing that all models are limited, have come out of the Federal Government's considerable experience in buyouts?

Mr. SMITH. Of course. And very elaborate models. The variable that is the hardest is human behavior. How will people respond?

Ms. NORTON. Economists also claim to know everything about that in their models.

Mr. SMITH. We are using actuaries and not economists. Perhaps that is the problem. We deal very carefully in facts and known patterns, and it is on that basis that we have made these projections. And we believe, given long enough, they will be accurate. They may be inaccurate over a five-year period, but over a 50- or 60-year period, my watching these things tells me that we will have the right number. Even if it is not over a short run, over the long run it will be.

Ms. NORTON. What will be the right number?

Mr. SMITH. The 9 percent, over the long run, will be the correct number.

Ms. NORTON. I have a concern that the imposition of such high costs, which will be funded out of agency's shrinking salaries and expense accounts, could deter agencies from using the very VSIP authority that you are encouraging.

Ms. GREEN. That is one of the reasons why we are advocating quick approval, so that the agencies would have the opportunity early in the fiscal year. It has been our experience that, as early in the fiscal year as possible, that we could offer some—

Ms. NORTON. No, but I am now hypothesizing, Ms. Green, that an agency head sits down and calculates the cost of funding the authority out of budgets that are shrinking, and, given your 9 percent, for example, and remembering that this is coming out of salary and expense accounts, which are not growing, and seeing the additional costs and the 9 percent, wonders whether they should proceed, since there is discretion, is there not? There is some discretion here.

Ms. GREEN. Yes, there is some discretion.

Ms. NORTON. Now, the agency has to meet its numbers. If the agency decides not to do buyouts, then you are nevertheless expecting the agency to reduce the number of employees?

Ms. GREEN. If they need to. They have to manage to budget. So if some agencies have high attrition rates, for example, they may not need to offer the buyouts. Other agencies that have low attrition, will have to offer buyouts. Each individual agency will have their own criteria.

Ms. NORTON. Before you ever got here with this proposal, they were working on 152,000. You add 100,000 to it, and is it conceivable there will be an agency that did not need this authority, given those numbers?

Ms. GREEN. Probably not, unless there was a smaller agency, but probably not.

Ms. NORTON. So they have to meet these extra expenses and may be caught between a rock and a hard place. Have you thought that through and how you might help an agency to manage its way out of that dilemma?

Ms. GREEN. Yes, and some of the agencies now, including OPM, have a freeze on outside hiring. So some of the things you have to do to start planning now to avoid involuntary separations are already being done, such as hiring freezes.

And the other thing that we caution them on is the expense of involuntary separations. It costs a lot.

Ms. NORTON. I am talking about direct costs, not the morale issues involved with RIFs but having the 9 percent contribution for the retirement fund.

Ms. GREEN. It is still cost effective to reduce that way now, if that is what you have to do to manage your budget, rather than do an involuntary separation later.

So it puts a lot of responsibilities on the managers and on their financial people to ensure that they have, in fact, looked at their agency and made the right decisions.

Ms. NORTON. Well, are you, for example, at the present time using the authority where one replacement employee can be hired for every two employees who go? Are you using that, as you propose to use under the early retirement or voluntary separation program?

Ms. GREEN. We are not using that now. We have talked to the agencies about it because it is in this particular bill.

Ms. NORTON. You say there is already a freeze and they are already, therefore, prepared for this because they are already doing it.

Ms. GREEN. No, I used OPM as an example.

Ms. NORTON. Is there a government-wide freeze?

Ms. GREEN. No, there is not at present.

Ms. NORTON. So some agencies just in anticipation have frozen their own?

Ms. GREEN. Based on their own financial situations.

As you mentioned, some are going to be in serious financial difficulties, and 1995 looks like the year when it will all come to a head. So if they can reduce the payroll and get these costs out of the way as early in 1994 as possible, they will have four years' savings in 1995 for these positions. And, in fact, some of them may not be filled on that ratio, that one for two. They might not be able to fill any positions at all, depending on how their budget looks.

Ms. NORTON. Well, if they filled one for every two, that suggests that the program may induce more reductions than are necessary and that 50 percent of the reduced positions might eventually be rehired. Is this a correct interpretation?

Ms. GREEN. No. As a matter of fact, we wanted to give the agencies some leeway in case they ran into some emergency situations where they had an exorbitant number of people leave for any particular reason in an area where they had to backfill. But we do not anticipate much backfilling, looking at the 1995 budget numbers, quite frankly. So we do not anticipate a 50 percent retainage.

Ms. NORTON. Well, wait a minute. I want to understand how this works. Under your provision, an agency could replace one employee for every two employees who resigned or retired early?

Ms. GREEN. That is correct.

Ms. NORTON. Now, that suggests that there may be more reductions than are necessary and, mathematically, it suggests that 50 percent of the people could be rehired eventually.

Ms. GREEN. If the agencies could afford to rehire.

Ms. NORTON. But you say they can. You say that in the bill, replacement of an employee for every two out. So in planning—the agency person now is trying to think through the slots in that way,

and I am trying to figure out what that really comes down to as the bottom line.

Have you overestimated the number of reductions? Is this number included—is this the number that goes—the 252,000. That is the target here?

Ms. GREEN. No, it does not have any relationship.

Ms. NORTON. The two employees that leave—are those two employees that leave, when you add all those two employees up, do you get the 252,000 or less? Because you are including the authority to hire one employee for every two that leave. I am trying to figure out how that works.

Ms. GREEN. I understand. No, the 252,000 was not a consideration in any of those numbers, and, again, we could look at the language. It was just our intent to give the agencies the flexibility if they needed it. We certainly can look at that language also to see if we can make it clearer. We do not intend to give them the authority, certainly if they cannot afford it, to backfill 50 percent of the people that leave. That is not our intent.

Mr. KLEIN. Their ultimate control will be their budget, and their budgets, we believe, will drive them to less than a one-for-two replacement. If we are predicting 60,000 to 100,000 people taking this incentive, assuming we get it to them early in the next calendar year, there will not be sufficient takers from that to meet the targets in most agencies.

Ms. NORTON. Would you say that again, that last thing?

Mr. KLEIN. Well, we have looked at typical organizations. And to price this out for one year, to actually have the agency be able to afford this package, they will have to choose a window fairly early in the year. If they wait until July, August, September, they will obviously not have enough money to fund it. It is probably a March time frame by which they have to get this thing accomplished in order to have the 9 percent and the \$25,000 or a portion thereof to pay out of their salary dollars. If they get maximum takers, we are only looking at 60,000 to 100,000 takers.

So whether this 252,000 is the right number or not, we will not get near that with this incentive. It will take some of the pressure off in the future and, hopefully, allow attrition and normal government management to take care of the rest.

Ms. NORTON. Yes. And the most extraordinary planning suggests that, early on, one would almost want to ignore it. If the agency head took seriously this target and took seriously that RIFs are not to be included, then it would almost want to ignore the replacement authority to the greatest extent possible.

Mr. KLEIN. Absolutely, that is a maximum replacement. We expect it to be less than that.

Ms. NORTON. How much would the 9 percent agency contribution have to be raised to reduce or eliminate the 2 percent annuity penalty employees currently pay for each year they retire below age 55?

Mr. SMITH. To give the retirement fund up front the money that is necessary for eliminating the 2 percent would be 55 percent instead of 9.

Ms. NORTON. What data did you use in determining that agencies could afford to pay a 9 percent contribution in addition to paying the separation payments?

Ms. GREEN. We did not approach it that way. We approached it from the point of having the retirement fund not suffer because of all of the early retirements. So this would be the amount that the retirement fund would need to be stabilized at, not so much that the agencies, that we were trying to balance the agencies' budgets with these.

Ms. NORTON. Thank you very much, Ms. Green.

I want to go to Mr. McCloskey then and next to Mrs. Morella.

Mr. MCCLOSKEY. Thank you, Madam Chair.

Just one question, some of our witnesses have stated that 90 days is too short a time period to offer the VSI to employees due to bureaucratic problems in getting notice to eligible employees. Is it possible that an extended period of time, such as 120 days, could be considered or more fruitful?

Ms. GREEN. We have been working extensively with the agencies since this bill was introduced. We have even had packages that we have delivered to them and gone over with them. They have started their planning already. So we think that they will be ready and may not need the entire 90 days in most instances to put this into place.

Ms. NORTON. Would the gentleman yield?

Mr. MCCLOSKEY. Yes, Madam Chair.

Ms. NORTON. Because it looks as though they gave the DOD, CIA and NASA authority through September 30, 1997, and no similar deadline or anything approaching it is contemplated for the government-wide buyout, which is, I suppose, the question.

Ms. GREEN. It goes back to the budget. It seems like everything goes back to money and the sooner that we can do this and get it behind us, the better, so that we can try to move on into 1995 with a balanced budget. So it has to do, mainly, with the numbers and the effect of the timing on the budget.

Mrs. MORELLA. If the gentleman would yield.

Mr. MCCLOSKEY. Yes.

Mrs. MORELLA. On the very same point, let's say an agency decides they want to do January to March, as they probably would, and if it does not expire until September, you may have some people who become eligible during that period of time. Will you make any provisions to allow those people the option through September, 1994?

Mr. KLEIN. What we intend to do is have a flexible 90-day window for an agency. In other words, from the time the bill would be passed until 30 September, they may choose 90-day windows for various elements of their organization.

Mrs. MORELLA. They could stagger it? It would be January to March. Another group would be—

Mr. KLEIN. For an organization in San Francisco, they may wish a later 90-day period, and employees would sign up during those periods. So they could balance the workload for the agency.

Mrs. MORELLA. They could try to balance it. You could still find, in some instances, there would be those who would feel they would

be eligible, even though their agency or their department of the agency or division chose another time frame.

Mr. KLEIN. If in a situation where an agency were to put off the exit of employees based on critical need, for example, if they took the option of spreading an occupation over a two-year period, for example, for our claims examiners' retirement, if they signed up during the 30-day window, they could leave at periods during that following two years as long as they sign up. We have to get them signed up during that window.

If they made that commitment, they could leave later on during a two-year window if they were in a critical occupation where we had to keep them on board to get the job done and collect taxes or process claims and what have you.

Mrs. MORELLA. I understand that. I guess what I am saying is a little different. It is simply that, again, using the idea that the agencies want to implement it as soon as possible so they make it January to 1st of March, if somebody might become eligible after that time, is there a possibility—

Mr. KLEIN. If they are in one of those occupations that became delayed and they became eligible later on, they could take it at that time. It would be based on the eligibility at the time they leave. So if they were to become eligible in January of 1995 and they were in one of those critical occupations that is spread over two years, they could at that time retire if they signed up during the 90-day window.

That is critical for us, to have people commit so they are not waiting and hoping for a more expensive buyout.

Mrs. MORELLA. So they would have to sign up during that period?

Mr. KLEIN. That is correct.

Mrs. MORELLA. I may get back to that later. Thank you.

Thank you, Mr. Chairman.

Mrs. NORTON. Ms. Byrne?

Ms. BYRNE. No questions.

Ms. NORTON. Your last point is really a critical point. We always hear of people waiting for a buyout or a similar opportunity to occur, and you need these people to fish or cut bait now, and you are trying to send that message that this is the only chance you are going to get.

Mr. KLEIN. There is not going to be a better one. This is it.

Ms. NORTON. DOD did not feel that same necessity. Why?

Mr. KLEIN. DOD is suffering a very massive downsizing as you know over a number of years, with base closures out into the future. So we felt they needed more flexibility when we worked with them on their retirement package. So they have that capability. So if they are closing a shipyard three years from now, they will be able to manage that.

We did not feel with the rest of the agencies that was the case, and we felt, as you pointed out, we needed to get them signed up now.

Ms. NORTON. I can certainly understand the difference between DOD. I mean this Congress has contributed mightily to the need for doing what we can on DOD. But with CIA and NASA, one wonders if that is not special legislation that somebody just kind of

hoped in there for these agencies. Are they going to be included now under the 90-day authority, and that is it, or are they going to——

Mr. KLEIN. CIA is not included under this bill.

Ms. NORTON. Why does the CIA—are you downsizing the CIA as much as you are the DOD? Why is the CIA and NASA extended to September 30, 1997, and other agencies have 90 days to make a decision? What is the difference between the CIA, NASA and the State Department?

Mr. KLEIN. Their bills were structured that way initially. We feel——

Ms. NORTON. You are giving me the result. I am asking for the reason.

Mr. KLEIN. I don't know the reason.

Ms. NORTON. We would ask you to——

Mr. KLEIN. I think the DOD is, as we have talked about this——

Ms. NORTON. And the DOD does not know or the CIA does not because we have asked them.

Mr. KLEIN. I believe CIA modeled their bill on DOD, and that was the same wording DOD used.

Ms. NORTON. Again, you are giving me the result, and I want to find the reason. And I wish before the record closes you could give us the reasons that CIA and NASA were treated differently. We accept and understand DOD.

[The information referred to follows:]

It is OPM's understanding that the NASA "buyout" proposal was modeled after that of DOD simply because an approach that had already been enacted with respect to another agency was thought to have the greatest chance of success in Congress. Also, NASA preferred the same flexibility that the DOD bill provided. Although the CIA has chosen not to comment on its approach to separation incentives, we would not be surprised if its reasoning were similar.

With respect to the Government as a whole, however, our objective was to achieve maximum savings within the shortest period of time practicable. Consequently, short "windows" during which employees would have to elect to accept a separation incentive were considered preferable to a very prolonged period for offering and accepting "buyouts."

Ms. NORTON. In writing this bill and making your calculations, have you considered the effect of normal turnover rates at agencies currently authorized to utilize VSIP programs?

Ms. GREEN. Have we considered the normal turnover rate at agencies that already have incentive programs?

Ms. NORTON. Yes.

Ms. GREEN. Yes. And I am sorry, I am not following you.

Ms. NORTON. I want to know how that had formed this proposal. How would a drop in normal turnover affect agencies' efforts and abilities to reduce work loads?

Ms. GREEN. OK. What we found is that the agencies that had use of incentives, that their attrition rates were higher by some 20 percent, 25 percent attrition rate, where we have been steadily dropping in the other agencies with no incentives down to about 4 percent attrition rate. We have had highs of maybe 8 percent, and then about four years ago went down to 5 percent, and now it has been steadily dropping down to 4 percent attrition.

So we do view this as a tool to assist in reducing the workforce voluntarily.

Ms. NORTON. I still am concerned about this 9 percent agency contribution. We know that conventional wisdom has it that early retirement incentives save employer's money over the long run. That is why they are used. And we can see it, even though the scoring is done in a way that may not truly identify the savings as we would like, but, in any case, we accept that there are savings in the long run.

This would suggest that the 9 percent agency contribution, which is supposed to more accurately reflect the cost of early retirement to the Federal Government, is unnecessary. Would you comment on that, please?

Mr. SMITH. Yes, and I think I am going to have to categorize the Federal Government a little bit. The 9 percent addresses the loss to the Civil Service Retirement and Disability Fund as opposed to a total government-wide picture. That Fund has a serious unfunded liability, and we thought it wise not to aggravate that.

Ms. NORTON. Are you trying to make up for it?

Mr. SMITH. We are trying not to aggravate it. We are not trying to make up for it, but we are trying not to worsen it.

Ms. NORTON. I hope that you have not created other problems in the process. I can understand your concern regarding the underfunding, I very much understand that, but I hope you have not thrown out of balance what you need to do to get the buyouts in the first place.

How will you avoid the problems that the Postal Service had where this committee had to have hearings on fair representation of minorities and women? What will you do or can you do—what do you plan to do to avoid any disproportionate impact that might not be rectifiable because there will be very little hiring?

Ms. GREEN. The implementation guidelines we are going to give them, first of all—not to directly answer your question, but just to let you know the implementation guidelines we are giving them—are going to have a lot of information in there to the employees about voluntary proposals, voluntary initiatives.

The specific issue of minorities and women, with the retirees, the persons who have the most service in the government now are not—and the ones who we anticipate will utilize this incentive more—are not, by and large, the women and the minorities. But by persons leaving the workforce now and opening up other opportunities, with the training component of this piece, we are looking to make sure that people who are left, who have the least amount of service, the ones who would be gone if we had an involuntary-type process, that those are the persons that we would work very closely with, once we finish this downsizing effort, to ensure that all the programs we have in place and the training component and all the other things we already have in place would ensure that they would have the upward mobility.

Even though there would be fewer positions, there would be greater opportunities, we feel, because of some of these other initiatives.

Ms. NORTON. I can only caution you to insert this concern explicitly in your planning. You will not be able to put Humpty Dumpty back together again. There are already complaints the government

is trying to do a structural downsizing with only minorities and women getting the opportunities to qualify for these positions.

Many of the positions that, of course, such personnel would be interested in are going to be positions in management. They have been journeymen for some time. They look forward, as others before them have, to rising in the bureaucracy.

Now, at least according to the National Performance Review, the major purpose here was to cut managers. I am not sure I heard the word manager come across the lips of any of those of you who testified. What was to be an attempt to get rid of a ratio of manager to employee in the government sector, that is twice what it is in the private sector, has now come down to 252,000 employees generically. I would like to know to what extent does the reduction of excess managers guide what you are proposing today?

Ms. GREEN. The agencies have delayering plans they are implementing along with their—

Ms. NORTON. Excuse me, what plans?

Ms. GREEN. Delayering plans they are implementing along with their budget reductions and along with this incentive program. So it is really a complete package of proposals that they are all looking at in their individual agencies. The incentives we look at as being more attractive to managers.

So we have goals of reducing the number of managers in the government through our delayering process and through offering these incentives because we feel the incentives would probably be more attractive to the managers. They have the most service. They are eligible to retire. And once they accept the incentives those positions can then be vacated, and, in some instances, abolished.

Ms. NORTON. We have heard very little about the criteria that would be used to review an agency's request for voluntary incentive authority or about the guidance they would be given. If we start out with the headline saying, the government has too many managers, and that is what we are getting after, and you get the whole country applauding because that is what you are doing, then one would expect there are specific guidance to agencies with respect to that policy or that operational concern, that that is one area where you really do have too many employees.

Are you going to give guidance and, if so, what form will that guidance take? Can an agency head just go willy-nilly around the agency, make her own decisions? Maybe she likes it that she has a lot of managers. A lot of her friends, they came up in the agency with her. She doesn't have a big incentive. I am not calling for the reduction of managers. You have.

You have not indicated that the agencies understand that that has any priority. What priority does it have? Is it first priority? Are there going to be priorities that you encourage the agencies to use or how will the agencies know or what is the best way to go about offering this buyout authority?

Ms. GREEN. As far as this buyout authority, we have not given them priorities. Their priorities have been given to them through other means, with the President sending memos to their agency directors and direction they have been getting from OMB. The type of guidance we are giving them on this is to make sure employees receive fair and equitable treatment.

As far as the guidance the President has given them, I think he has been very clear on the layering issues and the management reductions that he expects to see in their budget submissions. So in order to reach those goals that have been set for them, they can use this as a tool.

And I think that is how they will be judged when they submit their final proposals to the President and to OMB—how well they utilized these incentives. So we have not given them specific criteria on the type of positions.

Ms. NORTON. Boy, Ms. Green, that is very scary.

Mr. McCloskey.

Mr. MCCLOSKEY. I want to commend the Chair for raising this issue. I have been discussing it with staff, but I do think, in all candor, and not focused at you, Ms. Green, that the Chair's concern, I think, really goes to the general lack, at this point anyway, of a clear definition as to these standards and priorities. And I would think there would be a problem or a void if OPM does not state very definite priorities and procedures to address the management, general workforce imbalance which has been, as the Chair says, very much trumpeted by the administration.

So I would hope you would not forego the opportunity to achieve these administration goals as part of this process.

Ms. GREEN. No, and I don't think we have. What we can look at is what we have given the agencies as guidelines and see what we can do to be consistent with what the President and OMB have stated, and I don't mind restating something, but we did not include any prioritization of incentives to be offered in this program.

Mr. MCCLOSKEY. In keeping with the concern I just raised, and it goes back to what I asked in my informal statements in the opening, I do think it is intriguing, given the fact there is 250,000 employees involved, we have no statement from OPM as to management, general workforce ratios or levels, or, indeed, what agencies or areas are going to be going through this attrition.

I would just think, not as a trained administrator in this area but overall, you would have some idea of how much was coming out of DOD, how much out of agriculture and various of these details. So I guess, I think with the Chair, I will be looking for some, I think, tightening up on definition priority goals and structure here. I don't think it can go on like I heard the Library of Congress has done, which is one extreme.

Thank you, Madam Chair.

Ms. NORTON. Thank you, Mr. Chairman.

Mrs. Morella.

Mrs. MORELLA. I just want to get a clarification of the question I asked before with regard to the window of opportunity. The question is, must the employees be eligible to sign up for early retirement in order to take advantage of the deadline of the end of September of the fiscal year? Must they be eligible during that 90-day period?

Ms. GREEN. Whatever the 90-day period offered in their agency. The answer is, yes.

Mrs. MORELLA. That would exclude some others, then, who would be eligible after the 90-day period before the expiration, right? It would exclude them?

Ms. GREEN. Yes, it would. But, as Len Klein stated, there would be a staggered 90-day period.

Mrs. MORELLA. But it has to be within the 90-day period. You may want to reconsider that in terms of some of the agencies where it might be of some assistance.

Mr. KLEIN. As I mentioned earlier, if they identify an occupation they can spread it over that two-year period if it is critical.

Mrs. MORELLA. But if they are eligible the day after—

Mr. KLEIN. Even if they were not eligible at that time, they could, if they become eligible during that two-year period, they could retire.

Mrs. MORELLA. Oh, I see.

Mr. KLEIN. If they are in the occupation that for mission purposes they would have to delay because of the critical nature of it, for example, collect taxes or process retirement claims.

Mrs. MORELLA. Well, that does provide an opportunity.

Finally, I know you had a lot of testimony on the National Performance Review, and I have always been interested in having an opportunity at some point to look at it. You do have documents you will be putting into the archives about who testified, who gave written testimony, how some of these conclusions were arrived at? Is there a body of documentation that will be available that will be permanent?

Ms. GREEN. Yes, on the National Performance Review, on our input into that? Yes.

Mrs. MORELLA. And the input of other agencies and those people who looked into it, who commented on its pluses and minuses?

Ms. GREEN. Yes.

Mrs. MORELLA. That would be preserved, and you know where it is and how we can get access to it?

Ms. GREEN. I will make sure I do, yes.

Mrs. MORELLA. Good. Thank you.

Thank you, Madam Chair.

Ms. NORTON. Mr. McCloskey had another question.

Mr. MCCLOSKEY. May be stating the obvious, but as to the concerns raised as to the 18-month level and health-care coverage and also some stronger interagency preference for Federal employees, it is obvious we are in a time-is-of-the-essence concern with a markup being scheduled for next week, and I am sure Ms. Norton has similar concerns as to numerous things raised. So I know it is real tight now, but we would sure appreciate as many definite decisions as you could advise on in the interim.

So I thank the Chair for allowing me to raise that.

Ms. NORTON. Thank you, Ms. McCloskey.

Ms. BYRNE, any further questions?

Ms. BYRNE. Just one comment.

We started this session out on talking about plan and structure and administration, and we ended up talking about managing to budget and agencies setting their own criteria. It seems that we are not quite there yet in terms of explaining to us plan, structure and administration, because, in effect, we are saying to the agencies within a very huge general umbrella to do whatever you are going to do. That really bothers me, given my experience over the last few months with particularly NASA, Madam Chair, and I can

tell you why some of those things are in there, if you care to know sometime.

But the fact is that the agencies are calling their own tunes. I personally feel that this committee should look in—if OPM is not willing to—look into the more specific bill language itself.

Thank you, Madam Chair.

Ms. NORTON. Well, I share your concern, Ms. Byrne. Ms. Green is right, I think, that it is reasonable to adopt a hypothesis, for example, that high-level people are older and, therefore, at retirement age or near matured, and I understand that, but we are going to hold you to the National Performance Review.

The National Performance Review essentially says that, if you do what we recommend, you will need 252,000 less employees, but it does not say the number. That is the inference, okay?

So these reductions are not tied to costs, they are tied to efficiency. They say that in the government we only need this many people to do the same amount of work that was done by 12 percent more than we have now. That is what you all said. That is what we are going to hold you to.

If that is true, then I don't see how you can possibly say to agency heads, go around and find us some folks based on whatever criteria happens to strike you. I mean, it would have helped to have heard at least that, for example, we would want to give guidance to the agencies that those who earn the most money might be the ones you would look at, since they have the higher positions.

Even before I got to that, I think I would want to say that we have an inexorable ratio of managers to employees, so you should start there, because you only have so much money, and you have to target that money.

I think, as Chairman McCloskey has said, we are into the fastest track we could get on to accommodate you, and yet we do not know how these agencies will make these decisions or even whether you will give them guidance of the loosest kind about how they might establish priorities.

You say, for example, that they have to be fair. Well, by fair, you mean no coercion. I am sure that, for the most part, that will happen, but that does not assure the committee that we could not end up with a bunch of people, in far greater number perhaps, enticed by the incentive money, with ratios of managers to employees left virtually as we found them. And then what would we say about the efficiency goal of this report?

So far, your testimony has not been about efficiency. It has been about reducing the number of bodies, period. You have discussed this as if it was an old-fashioned "we got to get rid of some people and we need buyouts" notion. It has not been related to the efficiency goal of the NPR report. Or if there is something we have missed, we would like to give you an opportunity to explain the relationship between the goals proposed in the bill and greater efficiency in the government to do the same amount of work with fewer people.

Ms. GREEN. And I think the answer to that is that this particular bill was not intended to be the—it was only intended to be the tool by which the agencies could have the flexibility to adhere to the NPR and that their direction had come from the President, had

come from OMB. OPM was intending, in our new role with the NPR, to give the agencies a great amount of flexibility, staying within the personnel statutes.

Ms. NORTON. So you are saying that OPM is not going to—given the nature of this report, OPM is not going to set the guidance. It is going to come from some other agency. The President—I will have to put that off the screen and assume that you mean some agent of the President. All that is left, then, if you are not doing it, is OMB.

What I want to know is what is the understanding between you and OMB as to what the guidance will be or will you have any input into that? Is OMB doing it now?

Ms. GREEN. Once the agencies put together their plans, their downsizing plans, their separation incentives plans, their budget plans, all of that is submitted to OMB.

Ms. NORTON. But while the members of the committee are here, right now, I just want to state this right now. That is an after-the-fact approach, a non-NPR approach, to reform. It proceeds without guidance. It then either is going to incur more time and bureaucracy, because if OMB gets it, and it does not like it, it will send it back down with why did you do this. It is just what we are not looking for and what we were led to believe the NPR was not about.

Look, I go back to the questions that have, in one way or another, been raised by every member of this committee, and that is that NPR has the goal to bring greater efficiency. Each individual agency, even given the flexibility that I compliment you for, needs some understanding of how it reaches the goal of greater efficiency, since the agencies have absolutely no experience, no experience, of becoming more efficient with less people.

They know how to do freezes. They have no experience that tells them that with 12 percent fewer people you will be a more efficient agency, and you will be able to do the same amount of work without, I suppose, completely overworking the people that are left there, as freezes often leave them to do.

I am focusing on what are you going to do, given the laudable goal of flexibility—we all applaud that—what will you do to make sure when these people come forward, these managers come forward to you with their own ideas that are coherent and that meet the NPR overall framework of goals?

Ms. GREEN. The agencies have their NPR guidance. They have the guidance. The guidance is not in this bill, but I want to assure you that they already have NPR initiatives they have to adhere to and report on.

This particular bill, though, did not include that. This is more of a mechanism for them to reach—to assist them to reach those goals, but they have the guidance.

Ms. NORTON. We didn't expect it to be in the bill. We wanted to know what lay beneath the bill. And do I understand your testimony to be that the kind of guidance that we have spoken to, for example, on targeting, the guidance on helping people to target where the greatest efficiencies are to be found, such as reducing the number of managers, that that is already in the hands of agencies through some document?

Ms. GREEN. That is correct, and I will use my own agency as an example. We have been for months now working on our delayering plan with the OMB staff, and this bill will help us achieve some of those goals that we have set for ourselves to reduce our management ranks, for one example.

So the other agencies are also working along with the OMB staff and using us as a resource to give them the type of tools that they need to accomplish that.

Ms. NORTON. Well, perhaps I understand now. You have spoken of delayering plans and so forth. It would be useful, it would be helpful, it would allay the anxiety of this committee if you would give us an example of what has gone to the agencies in the form of guidance, and we would like that for our record before markup.

Ms. GREEN. Certainly. Certainly.

Ms. NORTON. Thank you.

[The information referred to follows:]

The following are two examples of guidance OPM has received from OMB.

As you know, the recommendations of the National Performance Review (NPR) and the President's September 11th memorandum call on agencies to streamline their organizations and operations. Through these actions, the goal is to reduce the Executive Branch civilian work force by 252,000, or not less than 12 percent, by the end of FY 1999. This goal includes the already planned reduction of 100,000 by FY 1995 as called for in Executive Order 12839 of February 10, 1993, which remains in effect.

Clearly, this can only be achieved if it is related to the budget priorities contained in your 1995 budget submissions. OMB will make every effort to work with you in developing a coordinated approach to meeting both the difficult spending caps contained in the Omnibus Budget Reconciliation Act of 1993 and the personnel streamlining initiative in the President's orders and directives.

The President's September 11th memorandum asks you to prepare a streamlining plan not later than December 1st. However, to ensure that our FTE decisions are consistent and integrated with the President's FY 1995 Budget, it would be helpful to have a preliminary FTE plan not later than November 1st. This plan should show, by year and major program, how you would allocate FTEs. The plan should indicate your approach to areas of special concern, particularly those involving Presidential initiatives, as well as areas in which you might be able to accomplish reductions of more than 12%. I have asked my Deputies and senior staff to work with you in developing the plan.

In preparing your plan, you should refer to the September 11th Presidential Memorandum and to the recommendations of the National Performance Review for guidance on opportunities for streamlining. These include: closing or consolidating field offices; reducing management layering; fuller use of new technology; reductions in regulation and red tape in such areas as personnel, procurement, budgeting, and internal management; and enhanced employee training and cross-training.

Although the categories of positions and unnecessary layers of middle management targeted by NPR should be the principal focus of your downsizing efforts, every opportunity for streamlining should be considered, including simplification of administrative processes, and elimination of certain programs. These plans should be implemented through attrition, proposed buy-outs, and other means that you determine necessary.

Enclosed is a table that shows your agency's FY 1993 FTE base, the level of FTE contained in the President's FY 1994 Budget, and a level derived after an illustrative reduction necessary to implement the objectives of the President's September 11th memorandum. The latter is provided only to indicate the magnitude of the reductions that will need to be taken government-wide. Depending on the President's policies in the FY 1995 Budget, some agencies may have to make larger cuts while others may receive FTE increases for specific programs.

Let me emphasize that there is no intention, at this point, of applying an across-the-board cut to reach the 12% overall goal. OMB, with NPR's assistance, will work with your staff in the next few weeks to develop a specific reduction allocation for your agency based on the planning guidance provided to agencies at the beginning of September, the areas suggested for streamlining in the NPR report, and your agency-specific streamlining ideas.

Your November 1st plan will be taken into consideration during an overall review of the budget in November. You will then have the results of that review to use in developing the final streamlining plan due on December 1st.

Reducing the size of the workforce, while maintaining and improving levels of service to customers, will be a difficult challenge that requires our creativity and perseverance. Alice, Phil, and I are looking forward to working with you to meet the President's challenge.

Identical Letters Sent To:

Hon. Mike Espy, Hon. Ronald H. Brown, Hon. Les Aspin, Hon. Richard W. Riley, Hon. Hanal R. O'Leary, Hon. Donna E. Shalala, Hon. Henry G. Cisnaros, Hon. Bruce Babbitt, Hon. Janet Reno, Hon. Robert B. Raich, Hon. Warren M. Christopher, Hon. Federico F. Peria, Hon. Lloyd Bentsen, Hon. Jesse Brown, Hon. G. Edward Dickey, Hon. Carol M. Browner, Hon. Roger W. Johnson, Hon. Daniel S. Goldin, Hon. Frederick M. Barnthal, Hon. James B. King, and Hon. Erakine B. Bowles.

Consistent with the National Performance Review's recommendation to reduce the executive branch civilian work force by 252,000, or not less than 12 percent, by the close of fiscal year 1999, I hereby direct each head of an executive department or agency to prepare, as a first step, a streamlining plan to be submitted to the Director of the Office of Management and Budget not later than December 1, 1993.

The streamlining plans shall be prepared in accordance with the following:

1. Each executive department's and agency's plans should address, among other things, the means by which it will reduce the ratio of managers and supervisors to other personnel, with a goal of reducing the percentage who are supervisors or managers in halving the current ratio within 5 years.
2. The streamlining plans should be characterized by
 - (a) delegation of authority,
 - (b) decentralization,
 - (c) empowerment of employees to make decisions, and
 - (d) mechanisms to hold managers and employees accountable for their performance.
3. Each plan shall address ways to reduce overcontrol and micromanagement that now generate "red tape" and hamper efficiency in the Federal Government. Each streamlining plan should also propose specific measures to simplify the internal organization and administrative processes of the department or agency.
4. The streamlining plans should further seek to realize cost savings, improve the quality of Government services, and raise the morale and productivity of the department or agency.
5. All independent regulatory commissions and agencies are requested to comply with the provisions of this memorandum.

The Director of the Office of Management and Budget is authorized and directed to publish this memorandum in the Federal Register.

The attached package contains information which may be of assistance in formulating the agency streamline plans required by the Presidential Memorandum of September 11, 1993, "Streamlining the Bureaucracy." Preliminary plans are due to the Office of Management and Budget by November 1, and final plans are due by December 1, 1993.

This package contains the following:

- Table Format. This is the format for submission of summary FTE numbers--by agency component by year.
- National Performance Review Chart. This chart contains a summary by major agency of the categories of personnel that the NPR identified as offering particular opportunities for streamlining. This information is provided to assist in the formulation of a plan for reduction.
- Downsizing Criteria. This is a listing of suggested criteria to be used in evaluating staffing levels in the context of preparing a downsizing plan that fits the agency's programs and mission.

Agencies should insure that their plans are consistent with their FY 1995 budget submissions and the recommendations of the National Performance Review.

AGENCY STREAMLINING PLANS: SUMMARY FORMAT

Department or Agency _____

TOTAL FTE LEVELS

Agency Component	<u>FY 93</u> <u>BASE</u>	<u>FY 94</u>	<u>FY 95</u>	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99</u>
1. Bureau Name	---						
2. Bureau Name	---						
3. Bureau Name	---						
4. etc.	---						

Total FTE

Total cumulative FTE
Reduction for Agency

Percent Reduction
from FY 93 Base

Streamlining the Bureaucracy: NPR Reduction Focus

	Supervisors, Managers & SES	Personnelists	Budgeteers	Accountants & Auditors	Acquisition Specialists	Headquarters Personnel	Total Central Control *FTE*
Agriculture	14,017	2,047	565	3,360	5,327	9,643	34,960
Commerce	5,556	547	214	613	1,068	2,221	10,219
Defense	119,396	15,099	10,950	37,506	49,411	20,087	252,449
Justice	15,661	1,483	296	1,643	685	11,164	30,933
Labor	3,013	1,438	95	376	196	4,218	9,334
Energy	4,073	424	245	820	970	5,167	11,700
Education	786	91	51	351	364	2,512	4,154
EPA	3,098	236	88	519	377	4,118	8,437
GSA	3,689	323	209	1,004	1,828	2,877	9,830
HHS	16,789	1,753	483	2,673	1,508	41,967	65,173
HUD	2,094	263	50	996	1,097	2,046	6,547
Interior	10,915	1,399	482	2,001	1,687	7,340	23,824
NASA	4,351	397	40	639	1,229	1,437	8,093
OPM	865	1,549	21	199	32	1,430	4,096
State	2,455	210	97	402	72	6,078	9,314
Transportation	11,313	913	236	1,427	1,028	8,581	23,498
Treasury	18,826	3,531	291	6,854	769	16,472	46,743
Veterans Affairs	26,403	2,323	358	4,477	1,984	3,113	38,659
Other Agencies	15,258	2,244	494	4,329	2,965	38,115	63,406
Total	278,458	36,270	15,267	70,190	72,596	188,588	661,368

STREAMLINING THE BUREAUCRACY **NPR Estimate of Central Control "FTE"**

Supervisors, Managers and SES

These figures were taken from Office of Personnel Management reports. They are the sum of supervisors and managers as of March 1993 and SES allocations as of September 1990.

Personnelists

The number of personnel by agency in the 200 series less military personnel specialists (series 204 and 205). The data were published in OPM publication MW-56-22 dated September 30, 1991. The numbers were adjusted to exclude supervisors based on each agency's supervisor to nonsupervisor ratio (derived from OPM reports).

Budgeteers

The number of personnel by agency in the 560 and 561 series published in OPM publication MW-56-22 dated September 30, 1991. The numbers were adjusted to exclude supervisors based on each agency's supervisor to nonsupervisor ratio.

Accountants and Auditors

The number of personnel by agency in the 500 series less budgeteers (560s and 561s) and tax personnel (512s, 526s, 545s, 570s, 592s, and 593s) published in OPM publication MW-56-22 dated September 30, 1991. The numbers were adjusted to exclude supervisors based on each agency's supervisor to nonsupervisor ratio.

Acquisition Specialists

The number of personnel by agency in the 1101, 1102, 1103, 1105, 1106, 1150, and 1910 series from OPM publication MW-56-22 dated September 30, 1991. The numbers were adjusted to exclude supervisors based on each agency's supervisor to nonsupervisor ratio.

Headquarters Personnel

Headquarters personnel are the personnel comprising headquarters staff as reported to the NPR by the agencies; a proxy was used for Treasury (which did not respond to requests for information) and "Other". The proxy (for Treasury and other agencies) is the number of personnel by agency in the Washington, D.C. area. The numbers were reduced by 28.5 percent to account for duplication of headquarters personnel who might also be supervisors or specialists. The 28.5 percent factor is the ratio of supervisors and specialists to total civilians in Washington, D.C.

Total Central Control "FTE"

The number of central control personnel by agency. It is the sum of all previous columns, and should be the primary target for streamlining reductions.

FEDERAL AGENCY DOWNSIZING

The recommendations of the National Performance Review (NPR) and the President's September 11th memorandum call on agencies to streamline their organizations and operations. Through these actions, the goal is to reduce the Executive Branch civilian work force by 252,000, or not less than 12 percent, by the end of FY 1999. This goal includes the already planned reduction of 100,000 by FY 1995 as called for in Executive Order 12839 of February 10, 1993.

The President's September 11th memorandum asks agencies to prepare a streamlining plan not later than December 1st. To ensure that FTE decisions are consistent and integrated with the President's FY 1995 budget, OMB Bulletin 94-1 requested a preliminary FTE plan not later than November 1st.

To achieve these goals and explore every opportunity for streamlining, agencies should think about downsizing in the broadest terms -- going beyond the "boxology" typically associated with reorganizations or "one-size-fits-all" approaches common to previous cutback exercises. Further, because each agency is unique: there is no set of "right" answers. There are no "correct" ratios of line to staff employees, number of field offices, etc.

The following questions suggest tools and opportunities which may be useful. Many lend themselves to combinations with each other; others can be applied independently.

Content of the plan --

1. Character of the plan. Is the streamlining plan characterized by:
 - (a) Delegation of authority?
 - (b) Decentralization?
 - (c) Empowerment of employees to make decisions?
 - (d) Mechanisms to hold managers and employees responsible for results and accountable for their performance?

Mission and functions —

2. Federal role. Does the plan address the roles of Federal, State and local government? Has the agency attempted to re-define which level of government should have responsibility for service delivery? The appropriate roles of the Federal government is a first-order issue. While sorting-out Federal roles is a protracted process and could delay indefinitely most downsizing initiatives, we should nevertheless look for opportunities to reassess Federal roles.
3. Mission redefinition. Can savings be made through redefinition of the mission of the organization and restructuring of the program? An example of restructuring could involve public works by modifying the missions of the Bureau of Reclamation, Corps of Engineers, Bureau of Indian Affairs, Tennessee Valley Authority and Fish and Wildlife Service to reduce duplicative capacity.
4. Low-priority functions. Does the plan consider eliminating operations which cannot be readily tied to agency mission or service delivery?

Staffing levels —

5. E.O. 12839. Does the plan support or contradict the agency's share of the reduction of 100,000 positions by the end of FY 1995?
6. Managers and supervisors. Does at least 10 percent of the reduction come from the SES, GS-15 and GS-14 levels or equivalent? Will, as the NPR report assumes, administrative and central control staffs and supervisors be the primary focus for downsizing? Does the plan, as recommended by the NPR report, reduce headquarters staff, supervisors, auditors, and personnel, budget, procurement and finance specialists?
7. Span of control. Does the plan halve the current ratio of supervisors and managers to other personnel?
8. Attrition rates. Given historic attrition rates for the agency, are the assumptions in the plan reasonable?
9. Hiring Freeze. Does the plan restrict agencies to hiring one person for every three, four, etc. which leave the agency?

Organizational restructuring --

10. Field structure. Can the field structure be redesigned by eliminating layers or consolidating locations? The restructuring of USDA to create a Farm Service Agency and consolidate field offices is the best current example. ¹
11. Regional, area and district offices. Can regional, area, or district offices be eliminated? Do these offices facilitate quality service delivery or pose a bottleneck?
12. Vertical layering. Can layers of oversight be reduced, using significantly fewer people and noticeably fewer organizational layers? Are there situations where there are two (or more) political appointees stacked within a hierarchy? Delaying might include systematically removing redundant layers, excessive controls and bottlenecks in both headquarters and field organizations. An example would be to eliminate program assistant secretary positions that layer bureau chiefs.
13. Consolidation. Are there opportunities for organizational consolidation of like or similar functions? Consolidation should be considered where headquarters, regional and district offices perform the same functions.

Management improvements --

14. Micro-management. Does the plan address ways to reduce unnecessary controls and micro-management which now generate "red tape" and hamper efficiency in the Federal Government?
15. Delegation and decentralization. Can central management operations be delegated to subordinate agencies/offices?
16. Unnecessary duplication. How has the agency scrubbed its functions and activities to eliminate unnecessary duplication?

Re-engineering --

17. Change current operations. Can the agency completely redesign work processes to simplify methods used to deliver quality customer services? Possibilities here include situations where levels of management (or process steps) pose significant bottlenecks in delivering service to customers.

¹ The six federal agencies with the largest total number of field offices or installations are: USDA - 16,982; HHS - 5,000; Justice - 2,342; Treasury - 2,250; Interior - 1,700; and DOT - 1,800.

18. Increased flexibility. Can staff be reduced by providing subordinate managers with the flexibility to develop alternative approaches to performing their missions?
19. Internal simplification. Does the plan propose specific measures to eliminate or simplify the internal administrative processes?
20. Internal regulations. Does the plan take into account the elimination of not less than 50 percent of the agency's internal management regulations that pertain to its organization, management or personnel matters.
21. Senior-level positions. Does the plan contemplate senior-level job restructurings as current incumbents retire? An opportunity may be coming during the exodus of senior SES staff that is expected to start in 1994.

Technology --

22. Information technology. Does the plan capitalize on information technology? Changes in technology historically drive shifts in structure and power, and the information revolution is no different.

Benefits --

23. Benefits. Does the plan seek to realize cost savings, improve the quality of Government services, and raise the morale and productivity of the department or agency?
24. Remaining employees. How does the plan deal with the employees who will be left? Does the plan provide for a means to ease transition for workers, whether they choose to stay with the government, retire, or move to the private sector? How does it address their morale? How does it deal with possible increased workloads?

Ms. NORTON. Finally, could I focus on this 252,000 number to try to get it clarified more? Is this number a net figure representing the workforce after agencies have been permitted to fill one of every two vacancies created by the VSIP?

I understand your testimony that people may not use it, but I want to know where the 252,000 number comes from. Is it a net figure?

Ms. GREEN. No, it is not a net figure of anything that happens after these incentives are offered.

Ms. NORTON. I was not talking about incentives. You were talking about the two-for-one replacement, the backfill.

Ms. GREEN. Yes. No, that has nothing to do with the 252. I would have to tell you that I do not know the origin of the 252,000.

Ms. NORTON. I appreciate the frankness of that answer. I don't think anybody does. And I have to tell you we don't take the 252,000 number seriously. We will not go by it, be guided by it, and simply not allow a target pulled out of the air to be used to take people's jobs away at a time when there are no jobs for them to go get.

This country has traditionally operated in a growing economy and wiped out jobs all the time, and it has worked. It has worked because, if your job gets wiped out, a corollary job at a similar rate of pay arises somewhere else. It has been a wonderful history of a growing economy. Around 20 years ago, that began to happen less and less and almost is not happening at all now. We are producing temporary jobs. We are losing jobs that have benefits, jobs that have insurance, health insurance.

It is very hard for us to sit here and, therefore, embrace a figure that is, for all we can find—this does not fall at the feet of OPM—but for all we can find has been pulled out of the air as a wish figure. We will operate on the basis of what is realistic.

Ms. GREEN. And, Madam Chair, we feel the figures we have offered here, given the number of eligibles we have in the workforce and the percentages of people we anticipate will take these incentives, will lead us to whatever figure. It will help us on the voluntary nature of people leaving the government so that we can have an opportunity to reorganize.

Ms. NORTON. We anticipate that people will only leave the government voluntarily. Again, this committee can embrace people leaving the government, and we did. We bit the bullet. We bit the bullet absolutely when the President came to us and said, we need the money for deficit reduction. We really did. And we found ways to do it, other ways, where we said we are going to meet his target. And we worked with the employee organizations, and we worked with the agencies, and, by God, we did it.

But when you come to us and say here is 100,000 more that we are throwing in for good luck, all I can say is, good luck, because we are not going to embrace a figure that does not have the kind of tight analytical underpinning that the deficit reduction figure did.

Are personnel reductions, that have already been realized through the 1993 DOD downsizing program, included in the 252,000? And how much of the 252,000 has already occurred under the DOD program?

Ms. GREEN. Madam Chair, I cannot speak to the 252, but I can speak to your question about DOD as far as these incentives are concerned. Out of the 100,000, we are saying maybe about half of those would be DOD and the other half would be the other executive agencies.

Ms. NORTON. I want to find out if what DOD has already done has counted. You have to accept the 252,000 or throw it away. And if you would like me to throw it away, I will. All I am asking is, did DOD—has it looked at what it is supposed to do as its workforce—are its workforce reductions counted in what it is supposed to do?

Ms. GREEN. I do not have the figures for their workforce reduction so far, but we anticipate with this bill that they will have another 40 to 60, or half, approximately half.

Ms. NORTON. I just don't know from your testimony, Ms. Green. Are they counted in this overall deficit—I am sorry, this overall reduction? Whether it is 252 or something else, they have a head start and, therefore, whatever is your figure, is the head start they have through the 1993 downsizing program, is that meant to count in whatever figure you will do through voluntary downsizing?

Ms. GREEN. Yes.

Ms. NORTON. Then you have a good head start, it seems to me.

I would like to know what level of workforce planning underlies the 252,000 reduction target. For example, were each agency's program responsibilities examined, and, after that, subsequently, was it determined the number and types of employees needed to accomplish agency missions? Was it 252,000 fewer than are currently employed? Did you look at each agency, look at their responsibilities, examine what they were and subsequently determine that in X Agency we need "A" fewer employees; in Y Agency we need "B" fewer employees; in Z Agency we need "C" fewer employees? Add it up, and we need 252,000 less employees. Is that how we did it?

Ms. GREEN. The agencies are going through a process now of doing what you just described as they put their budgets together and as they look at their structure over the next few years. The 252 is a figure that is a goal for the next five years.

Once we get through this process with the early out and the incentives and the agencies submit their 1995 budgets, I think we will have a better understanding then of a revised figure that would probably give you some comfort that we have some basis, in fact, of a number.

So I think that the process is happening now and that if that goal, if that figure has to be revised, then possibly it could be revised. But we are putting the time and the attention to looking at each of our agencies.

As an agency director, I know our Director is looking at his agency. And when we make our final submission to OMB we would have a figure, a number then, that we feel we can manage our operation and could provide our mission over the next few years.

So I don't mean to be vague, but that is—I just wanted to tell you how the process is working.

Ms. NORTON. I understand. You cannot be more explicit than the actual analysis that has occurred.

This program will cost agencies money. You have to find the money to pay for this. Deficit reduction had the opposite effect. It reduced the costs to agencies. Am I correct in assuming, therefore, that since this is not a part of deficit reduction, that more fine-tuning and more accurate analysis could result in the lowering of this guesstimate, this 252,000 figure?

Ms. GREEN. There definitely will be some fine-tuning to that figure. The agencies now are going through a process, and we are giving them the guidance to determine what types of positions that they are going to—this is the flexibility we were talking about—offer the incentives to.

So the fine-tuning gets down to, what do I need to accomplish my mission and how many of those positions, and those persons that occupy those positions, are going to be here to assist me in that venture? Do I now make a determination that I should include those persons in this particular incentive because I want to free up some money and some opportunities for other folks or not?

So the fine-tuning is ongoing, and I anticipate that it will be ongoing after this particular bill is complete.

Ms. NORTON. You have a difficult mission. When GM and IBM and the many Fortune 500 companies have laid off people and increased productivity they had a bottom line and a profit margin to guide themselves by. They knew using fewer people had a direct effect upon increased productivity and greater profits. You don't have that kind of discipline because the government does not have a bottom line and is not in the profit business and does not have anybody quite like itself to compete with.

Therefore, I just want to say here and now that you are embarking upon a wonderful, noble, important experiment for government, but if you are going to do it and you are going to claim that the purpose in reducing positions is the very same as the purpose that IBM and GM have, then you have to show us that you can adopt proxies that help the committee to understand that what you have, in fact, done is to produce a more efficient and more productive government with less people.

You do not have a profit margin to show it, you do not have the bottom line to show it, and you have to find ways that are credible to make us believe that this is anything more than laying off bodies perhaps to save money for some other purposes.

Mr. Kanjorski has joined us. I am very pleased to see he is here, and I would ask him if he has any statements or questions at this time.

Mr. KANJORSKI. Madam Chair, I have a statement for the record and would ask unanimous consent it be admitted.

Ms. NORTON. So ordered.

Mr. KANJORSKI. I would just like to congratulate the witnesses and the committee for taking up this issue now. I think that there is great expectation in this country that government can follow the lead of the marketplace in providing more efficient and effective service with less people and less cost. But I hope that we don't get caught in this problem of not realizing that also employment of people and the jobs of Americans are very important.

So that, as you go about this effort, I would urge you to, as the Chairman has indicated, not just count the bodies that are released

but find some measure in which we can establish for the Congress and for the American people that, in fact, reinventing government is, in fact, doing that and accomplishing it in a positive way.

The one thing that I was working on with a caucus in the Congress now directed toward reinventing government is looking throughout the executive branch and watching the more modern leadership take certain roles, and one of the roles that I have been impressed with is that of the comptroller of the currency, Gene Ludwig.

He has taken what I think is a modern business technique of making user-friendly responses to industry, and what he has done is, rather than allow government to compound regulations and then put them out for every bank or financial institution to study those regulations and come up with a response in a custom fashion, he has gone to using computer programs that the government can provide, and the program is consistent with the regulation. And if you follow the program you have not any fear of violating the regulations.

But it is much easier because you create one program that is usable for all the installations out there. So what he has done is not only increase the efficiency inside the government of how they operate, but he has allowed the organizations that he regulates to become much more efficient and have to spend less time with people going through regulations on a custom basis, each institution at a time, and can, in fact, apply an efficiency that we create in government in the private sector, which also decreases the manpower and the cost necessary there.

I guess in my office I am not computer literate, but everybody else in my office is, and I hear this word user friendly. And I think if we, the government, were to adopt that as our phrase, that it is time that we start thinking how we can become user friendly or perhaps customer friendly or constituent friendly, in that there are so many things we do by regulation control that require inordinate activity in the private sector, very expensive, requires custom activity that should not be necessary and is not necessary. And that if we can turn the flipped coin around and say, if we are going to require regulation, if we are going to require compliance with Federal law or regulations, that we have to find a method, a mode, a medium by which we can make it easy for those that are being regulated to comply and at the lowest cost.

It is impressive to listen to the testimony. I sit on the Banking Committee, too. And just out of that area, the amount of efficiency that government can put into the private sector by just asking the question, are we doing this in the most efficient way so that the respondent can take advantage of efficiency, too?

And I think if we work along that line the body count won't matter that much. Because, even if we had to keep more government employees to make a user-friendly government, ultimately, there will be a much lower cost factor out there for the people that pay the taxes in this country. And the businesses will have to spend less money to comport and comply with Federal regulations and laws and, we will be accomplishing the same thing by reinventing the system.

I throw out just an idea that we were talking about at a most recent hearing on the appointment of Attorney General. Someone in the administrative branch took back the idea that we do not need to have Zoe Baird experiences. They are not experiences that come about as a result of intentional violation of the law or misuse or abuse of the law. It is just that there are so many laws and so many regulations that people have to comply with and that we have not kept up with a simple way of allowing them to comply.

I was speaking with someone in the computer business the other day, and I thought an idea that they had along those lines should be looked at by the Federal Government. There ought to be a way that people who wish to not violate the law, as Ms. Baird did with not paying Social Security on a part-time employee, should be able to, by computer, find out what laws and regulations are out there and comply by computer.

An example would be that, even if she had paid the taxes, the social security taxes, on that part-time employee of hers, she still would not have been in compliance with the law because she would not have paid the workmen's compensation or the State unemployment compensation. I think someone said she would have had to make out 19 reports to the Federal and State system to be in compliance with just having a part-time housekeeper.

It seems to me we should start looking at, with our computer ability today, to have people be able to go to an ATM type of machine to provide the payment for Social Security, to provide the payment for unemployment compensation, to provide and comply with all other Federal and State regulations and get a certificate of that compliance to show they are in compliance, so that they do not have this fear of being a prospective violator of some type in that absence.

And I think that is our responsibility in the administration now. What I am saying is we are in the computer field in the government. I saw it most recently in the Postal Service, where they had the Postal Buddy Machine, and they canceled the operation.

But we have to get a cross-pollination. Maybe that machine not only could have provided something for the Postal Service but it could have been across agencies and used in the facilities, since we have a Postal Service facility in almost every city and community in the area; that other agencies of the government could go to work and allow people to comply simply with the laws and regulations to find out what they are and to just make things more simpler by the use of computers, but by the use of pre-thinking on government's role and what is necessary out there to comply.

So I commend the administration's movement in this area. I certainly urge you to move further and think of these other things and perhaps invite in the private sector to see how they are making things more readily available. Quite frankly, if the private sector could develop franchising operations, standardization, uniformity throughout the system to carry on business efficiently, there is no reason that government cannot take the same principle and apply it and make life a lot easier for the taxpayer and for the person that has to comply with government laws and regulations.

Some emphasis along those lines over the next several years, I think, can be a great contributing factor, not necessarily to lessen-

ing the manpower of government but to make it more simple for the private sector and the private citizen to comply with regulations and rules and do it in such a way that is very efficient for them.

I think we have the technological capacity now in this country to do it. It is more the importance that we get the mindset, the attitude in government that that is our responsibility, that we can no longer just compile inches and inches of rules and regulations and throw them out to every individual business or every individual entity and expect them to be able to afford a Philadelphia lawyer who will go through it and on a custom basis comply in each instance.

In banking I found, Madam Chairwoman, that every bank in America, to comply with CRA regulations, on average has to spend at least \$55,000. That is just to fill out the paperwork, just to get the legal advice as to how to do it. Whereas, if we encouraged government to create the program, we could eliminate a great deal of that expenditure out in the private sector and a lot of that paperwork. So I urge you to look at that.

I congratulate the committee and the two Chairs for taking on this issue. I think it is great.

Ms. NORTON. Thank you very much. Appreciate those remarks, Mr. Kanjorski.

[The prepared statement of Hon. Paul E. Kanjorski follows:]

PREPARED STATEMENT OF HON. PAUL E. KANJORSKI, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF PENNSYLVANIA

First I would like to thank our co-chairs of today's hearing, Chairman McCloskey and Chairwoman Norton, for acting promptly to hold hearings on the first piece of legislation from the National Performance Review to come before the Congress, the Federal Workforce Restructuring Act of 1993.

President Clinton and Vice-President Gore's commitment to "Reinvent Government" may well be the most important contribution of this Administration to our nation's continued prosperity. We know all too well how cumbersome, unresponsive, inefficient, and wasteful the government can be despite the efforts of millions of hard-working federal employees. As a leader of the bi-partisan Reinventing Government Caucus, I pledge my support for this bill and other efforts to make the government work better for less.

The legislation before us today is a vital step toward the goal of reducing the federal workforce by 252,000 before the end of the century. Providing Voluntary Separation Incentive Payments (VSIP) for federal employees will enable agencies to begin to decrease the ratio of managers to federal employees from the current 7-to-1 ratio to a more efficient 15-to-1 ratio envisioned by the National Performance Review. Providing VSIPs will not require additional appropriations, and will result in significant savings for the government.

Perhaps more important than the VSIPs are the provisions of the Federal Workforce Restructuring Act which liberalize restrictions on employee training. Training the federal workforce to adapt to the challenges of modern technology and effectively serve our constituents is one of the most challenging tasks facing those of us who want to reinvent government. Proper training is necessary to improve the quality of our federal workforce and allow workers to better acquire the skills necessary to improve flexibility, productivity, and efficiency.

I commend the Administration for sending this legislation to Congress and look forward to assisting in its early passage.

Ms. NORTON. I have really only one question. I appreciate that you have come under close questioning. It has been the first opportunity the committee has had to look at a report and an approach that we very much embrace and feel that you are pursuing in exactly the right way through the bill that you have proposed.

I am also optimistic that there will be a fair number of people who accept the incentive, just the kind we want. I am optimistic, in part, because I think people really have been waiting for this to occur and that whatever fears and expectations we have may be allayed simply by the natural phenomenon. But there certainly are fears that we have heard voiced that the \$25,000 may not be an adequate incentive for workers in the upper bracket to retire.

Since you have had experience with other agencies, what percentage of these high-salaried people, more likely to be the managers who you say are overrepresented in the government, have left the government under the established VSIP program?

Mr. KLEIN. Madam Chair, the only real experience we have so far to any extent is with DOD. I believe Mr. Sanders is here to testify later. But I understand where they have offered the incentives to managers—and they have taken a much more retail approach to this than we are proposing. In other words, they are offering it to installation by installation separately as they have faced downsizing. But where they have offered it they have had the same kind of take rate they have had with the rest of the workforce.

Ms. NORTON. Retail as opposed to what you are going to be doing?

Mr. KLEIN. Well, DOD, as you pointed out, has a much longer window, and what they have been doing is that, as they have closed bases or had downsizing at individual bases around the country, they offer that incentive to that base only, rather than through the entire defense department. So they have their experiences base by base and often, within bases, department by department. But I understand—

Ms. NORTON. Of course, this can happen in an individual department under your plan as well.

Mr. KLEIN. It could, yes. Over the next year they could offer 90-day windows to different elements of their organization. But where they have had experience with managers they tell us that the success with the incentive has been comparable to the rest of the workforce.

If we can get 40 percent of our regular retiree managers to take it, if they are eligible, and 20 percent of the early-out managers to take it, I think we will have achieved a major impact on our delayering.

Ms. NORTON. Say those percentages again. If you can get—

Mr. KLEIN. Their experience has been that of the people who are eligible for regular retirement, normal option retirement, of those who are eligible, 40 percent of those take the incentive offers. For the early retirements, 20 percent of those who are eligible take the incentive when it is offered. We are hoping we get the same kind of take rates for the rest of government.

Ms. NORTON. I want to thank all three of you, Ms. Green and your two colleagues, for very, very useful testimony for us. We know that you are in on the ground floor and that this is a new approach to an old way of trying to encourage people to leave the government. We compliment you for the work you have done pioneering this approach, and, of course, we wholeheartedly embrace what the administration is trying to do. I want to thank you once again for coming to testify.

Ms. GREEN. Thank you.

Ms. NORTON. We want to hear next from Mr. Ron Sanders, Acting Deputy Assistant Secretary of Defense, Civilian Personnel Policy at the Department of Defense. Perhaps we can get some real experience to answer some of the questions that we asked to Ms. Green and her colleagues.

STATEMENT OF RON SANDERS, ACTING DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR CIVILIAN PERSONNEL POLICY, DEPARTMENT OF DEFENSE

Mr. SANDERS. Good afternoon, Madam Chair.

Ms. NORTON. Good afternoon, Mr. Sanders. You can proceed.

Mr. SANDERS. All right. I will give you a brief summary of my written statement. If we could enter that into the record, I would appreciate it. I will try to be as brief as possible.

Appreciate the opportunity to testify before you on DOD's experiences with its voluntary separation incentive pay program authorized by the Congress last year. I also want to take this opportunity to express my appreciation to the work that these two subcommittees did, among others, in providing that authority to us.

Madam Chair, you expressed earlier the desire to try to avoid involuntary separations in government altogether, and I can tell you that you have before you the means to do it. We have just about accomplished that in the Department of Defense, particularly over the course of last year, with that authority. This past year we have come down by almost 70,000 civilians, 67,000 to be exact, and we will only involuntarily separate less than 3,000.

If you look at the course of the DOD drawdown—and, of course, a lot of this occurred before we had the incentives, but we are still quite proud of the figure. We have come down almost 180,000 civilians since the beginning of fiscal year 1992, with about 12,000 involuntary separations. No private company can match that achievement.

In large part, though, the success we have achieved comes with Secretary Aspin who, early in his administration, said, we are going to use these incentives as aggressively as we can to avoid involuntary separations but still bring down the Department of Defense civilian work force and do so in a balanced, sensible way.

We have used these incentives in three instances. First of all, we used them just prior to reductions in force. Obviously, you want to avoid reductions in force. When we approach a RIF we begin to get a clear picture of the surplus skills and surplus employees we have in our organizations.

Let me add as an aside, in DOD at least, the civilian employees is a dependent variable. It is a function of force structure decisions, mission, budget, program decisions. All of those things go into the equation. And, finally, our commanders decide how many civilian employees they need to meet all those requirements. As a consequence, we view these incentives as a means to an end, and they occur in that larger context.

You asked a number of questions to the OPM witnesses about planning, and in the case of the DOD the offer of these incentive has occurred in that larger context of our future years' defense plan and all of our budget planning.

In the three instances where we have used incentives first, before reductions in force, it was basically to clear out retention registers, to keep people from being bumped out the door.

And, just as a remarkable anecdote, let me tell you in February of this year our largest industrial commands in the department, the Air Force Materiel Command, the Army Materiel Command and our Naval Aviation Depot and Maintenance Shipyards, came to us with projected involuntary separation figures in excess of 20,000 people. Those would result in workload reductions.

We are not steaming as many ships or flying as many airplanes. We don't need the people in our maintenance depots to deal with them anymore.

We used those incentives at Secretary Aspin's direction, and in the Air Force Materiel Command, where they were looking at firing 9,500 workers, they canceled the RIF. In the Army Materiel Command, where they were looking at firing about 6,500 workers, they canceled the RIF.

In Navy, they had a somewhat—they were less successful, in large part because they have been running reductions in force at their shipyards for about three years straight, and everybody who is going to go voluntarily has already gone. But even there, where Navy was looking at firing about 8,000 people, we brought that number down to about 2,500. And, as we speak, we are working to reduce it even further.

That segues into the second instance in which we use these incentives in the department under the authority you all gave us, and that is after reduction in force notices are issued. Once separation notices are issued and we literally identify the numbers, the types, the names of employees who are going to be fired, we go to surrounding DOD installations. We offer incentives to employees in corresponding occupations literally to clear vacancies for those people. And, again, that has been remarkably successful.

For example, in the case of Norfolk Naval Shipyard, we started with an involuntary separation estimate of 1,900 people earlier this year through the offer of voluntary separation incentives. We reduced that number to 1,200. 1,200 RIF notices were issued several weeks ago. In the ensuing period we have already reduced that number by 500 by continuing to offer incentives at other installations and placing people principally in the Norfolk metropolitan area.

The third instance in which we use these incentives is to shape the force, and that is the future look. We already know, for example, in the Army Materiel Command what their fiscal 1994 reduction targets look like. They are offering incentives now to get a head start on those reduction targets.

Let me give you an overall summary of our experience to date, and it has been almost exactly a year since we have been using these things.

We offered—we identified about 40,000 employees in surplus skills and surplus categories, and we offered—we needed about 40,000 voluntary separations in the department to avoid RIFs. Through the use of these incentives we got 30,000. For the most part, the takers have been higher graded, at least in terms of our average grade, but that is more a function of their seniority than

anything else, as Mr. Klein just testified before you. These are focused and targeted on workload, and, for that reason, we have not offered them to as many managers as other agencies may, but those we have offered, the take rate has been comparable. But generally about slightly higher average grade.

For the most part they have been white males, and overwhelmingly these are retirement eligibles, both early and regular optional retirement. Of the 30,000, 45 percent of them were early retirement eligibles, 37 percent were optional retirement eligibles and the remaining 18 percent took resignation incentives that averaged about \$17,000 per person. That is our success to date.

You asked a number of questions about what this does to your normal attrition, and, again, I will take you back to the figure I gave at the outset. The department came down by 67,000 this past year—30,000 through incentives, about 3,000 involuntary separations. The rest are from people who continue to leave the department on their own, both retirements and quits.

So the two, both normal attrition and induced attrition, have worked in a complimentary way to bring the department down with a minimum of adverse impact on our employees.

Let me close by just suggesting a few lessons learned.

At least in the case of DOD, we have gone out of our way to target this. As you correctly pointed out, we have this authority through fiscal year 1997, so employees may be able to play the lottery. They may be able to sit back and say, I will get another chance. By saying we are targeting these incentives to surplus categories, we hope to minimize that, and the empirical evidence suggests that we have.

Secondly, you have to communicate to your employees, and we have taken great pains to do that.

Third, we have worked closely with organized labor in the department. They have been invaluable in helping us communicate to employees and in also dealing with rumor control. I will give you an example of that.

At Norfolk, the rumor started spreading at the installation that if employees didn't take our offer they would get a better deal, and we know that several dozen of them actually went to the personnel office and withdrew their acceptance of the incentive based on that rumor. We were able to use the union to squelch that rumor and recoup.

Finally, I want to compliment the staff of the Office of Personnel Management. They worked closely with us from the beginning. Our program was about a year in gestation, and it has now been a year since we have actually had the authority. So, over the past couple of years, they have been very helpful and a key in helping us devise our program, one that is tailored to the Department's needs.

With that, I will close and be glad to take any questions you have.

Ms. NORTON. Very much appreciate that. Very pointed and useful testimony, Mr. Sanders.

[The prepared statement of Mr. Sanders follows:]

PREPARED STATEMENT OF RON SANDERS, ACTING DEPUTY ASSISTANT SECRETARY OF
DEFENSE FOR CIVILIAN PERSONNEL POLICY, DEPARTMENT OF DEFENSE

Dr. Ronald P. Sanders is currently Principal Director of Civilian Personnel Policy and Equal Opportunity (SES) for the U.S. Department of Defense; as DoD's senior career human resource management executive, he also serves as the Director of the newly-established Defense Civilian Personnel Service. In these capacities, he establishes policies and directs programs and staff dealing with all aspects of human resource management for DoD's one million civilians, including its non-appropriated fund and foreign national employees. Among other things, Dr. Sanders oversees civilian employment planning, retraining and outplacement assistance; quality and productivity programs; civilian personnel information systems; and discrimination complaint investigations in support of over three hundred civilian personnel offices in DoD.

Dr. Sanders was born May 2, 1951, in Minneapolis and graduated from Palmetto Senior High School, Miami, in 1969. He received a Bachelor of Arts degree in business management from the University of South Florida in 1973, a Master of Science degree in human resource management and industrial relations from the University of Utah in 1976, and a Doctor of Public Administration degree from the George Washington University in 1990. He has been inducted into three national academic honorary societies. Dr. Sanders attended the Massachusetts Institute of Technology's Sloan School of Management as a Senior Executive Fellow in 1987 and completed a congressional fellowship with Sen. Tea Stevens (R-Alaska) on the Senate Governmental Affairs Committee's Federal Services Subcommittee in 1989.

Prior to his appointment to the Office of the Assistant Secretary of Defense, Dr. Sanders served as Deputy Director of Civilian Personnel (SES) for the Department of the Air Force, where he was responsible for policies and programs covering its 260,000 civilians. Previously he served as chief of the Air Force's Civilian Personnel Plans and Resources Division, where he was the principal author of PALACE Agenda, that agency's strategic plan for civilian personnel management. He also headed the Air Force's Labor and Employee Relations Division, where he was responsible for dealings with its 170,000 unionized employees.

Appointed as a U.S. Civil Service Commission management intern in 1973, Dr. Sanders began his Federal career as a field examiner with the National Labor Relations Board, Memphis, Tennessee. He served as Labor Relations Manager at the Ogden Air Logistics Center (AFLC) Headquarters, Wright-Patterson Air Force Base, Ohio; in that latter capacity, he was the principal management negotiator for the first nation-wide collective bargaining agreement covering AFLC's 70,000 civilian employees.

Dr. Sanders has been elected to the Board of Directors of the Senior Executives Association and serves as an adjunct Professor of Public Administration for Syracuse University's Maxwell School of Citizenship and Public Affairs. He has received numerous awards for superior performance and was the 1989 recipient of the Air Force's General Robert J. Dixon Award for Manpower and Personnel, the first (and only) civilian to be so honored. In 1987 he was named by the Office of Personnel Management as one of the Federal government's "Top 40" performers under the age of 40.

Dr. Sanders has also been published in several professional and academic journals. He authored a chapter on "Re-inventing the Senior Executive Service" in *Government and Public Service* (Jossey-Bass, 1993), and his research in that area was cited in the Vice President's National Performance Review. In addition, he served as a staff advisor to the National Commission on the Public Service, and his doctoral research, entitled, "The Best and Brightest: Can the Public Service Compete?" was published as part of the Commission's final report in 1989.

Dr. Sanders is a certified SCUBA diver and an amateur astronomer and enjoys competitive swimming and weight lifting. He is married to the former Elizabeth Ann Book of Miami, Florida, and they have a son, Matthew.

Mr. Chairman and Members of the Subcommittees: It is my great pleasure to appear today to discuss H.R. 3218, the "Federal Workforce Restructuring Act of 1993". I appreciate the opportunity to share with you our experience in implementing the Separation Pay Program the Congress authorized in last year's National Defense Authorization, P.L. 102-484. For the employees who have lived through the implementation process, so much has happened that it is difficult to believe we have had this program for less than a year.

We have four major objectives in our work force reduction. They are to (1) achieve the civilian employment levels set forth in the President's Budget Submissions, (2) achieve a work force that is balanced in terms of grade and skill and which sustains the progress we have made in equal employment opportunity, (3) minimize involun-

tary separations, and (4) assist those few employees we may have to separate involuntarily. I am very pleased to report that with the Separation Pay Program we are achieving those objectives.

BACKGROUND

The President signed the public law authorizing our program October 23, 1992. The Secretary of Defense delegated authority to offer incentives on December 22nd. On December 30, we issued initial implementing instructions. Under those instructions, the Assistant Secretary of Defense for Force Management and Personnel retained the authority to offer separation pay.

The first use of separation pay was at Chase Field Naval Air Station in Beeville, Texas, in mid-January. Chase Field was scheduled to close at the end of January and at the time the program was approved, 79 employees were scheduled for separation. Of those, 49 were not interested in placement assistance—25 planned to retire and 24 did not want to leave the area. That left us with 30 employees to place. They were mostly firefighters, clerical or wage grade employees. We looked to nearby DoD installations and offered incentives to employees at the Naval Air Station and Defense Logistics Agency in Corpus Christi. Of the remaining 30 employees, we placed 14 into vacancies we created using incentives, and 14 through our Priority Placement Program. There were only two we could not place. We knew even from this limited offering that the program would be a success.

By late April, Secretary Aspin called for aggressive use of separation pay. We issued implementing instructions delegating authority to the Components and Defense Agencies. Since that time, they have authorized over 40,000 incentives. Close to 30,000 employees have been given incentives to leave.

At this juncture, much of the information we have is preliminary and anecdotal. Nevertheless, the news is good.

RESULTS

Historically, DoD attrition averaged between 8 and 9%. By the fall of 1992, attrition had declined to less than 6%. For many years, Voluntary Early Retirement Authority (VERA) was the best tool we had to avoid reductions in force (RIF). When we first began reducing the workforce in 1988 and 1989 we expected that 16 to 18% of VERA eligibles would take early retirement. By 1992, we were lucky to get a 4% take rate.

Our largest employers of civilians are our industrial activities—the Army and Air Force Materiel Commands and the Naval Shipyards and Aviation Depots. At the beginning of FY 1993, each of these activities faced fiscal and workload reductions that under normal circumstances would have caused the involuntary separation of thousands of employees. Using incentives, both the Army and Air Force Materiel Commands avoided FY 1993 reductions in force (RIF). While some Naval Shipyards and Aviation Depots have issued separation notices, the number of employees who may be separated was significantly lowered because of incentives. The story is the same at installation after installation.

Of the almost 30,000 employees who have taken incentives, 18% resigned, 45% took voluntary early retirement and 37% took optional retirement. The Components estimate that about 42% of the employees who are eligible for optional retirement and who have been offered an incentive will take it. About 26% of the early retirement eligibles who have been offered an incentive have taken it.

The average incentive taker has almost twice the years of service as the average DoD employee, 26 years compared to 15. Both early and regular retirees average 28 years of service and \$25,000 per incentive. The age for early retirees is about 52 years; for regular retirees about 61 years. Those taking a resignation incentive average 15 years of service and 48 years of age. They get an average of \$17,000 per incentive.

Looking at our initial data, it is apparent that those who have accepted incentives are predominately white males. The majority of takers are veterans. The average grade of the DoD population is 9.0. The average incentive taker is grade 10.

We can say unequivocally, that with incentives we have avoided thousands of involuntary separations. We also believe that where we have to run reductions in force, we will minimize the impact on women and minorities. Separation pay is cost effective. It avoids the high cost and severe effect RIF has on productivity. Our program is a success.

I am pleased the President has submitted the Workforce Restructuring Act and that you are giving it your speedy attention. It will ease the reductions non-Defense agencies must make in support of his initiatives and the National Performance Review. The Department of Defense fully supports the President's initiative. While the bulk of the bill does not apply to DoD, some provisions like the 9% fee and training changes cover all agencies. We support these provisions. The training section will strengthen our ability to retain employees as we reshape our workforce.

CONCLUSION

There are several cautions we would share with other agencies as they think about implementing an incentive program. First, we firmly believe agencies must target incentive offers to the groups of employees they need to reduce. Across the board offers of incentives are risky; the result may be hiring new employees to do the job of employees the agency just paid to leave. Second, communicate, communicate, communicate. The work force needs as much information as you can provide. Third, enter into a cooperative relationship with employee organizations. They can help control rumors by telling employees the straight facts. Fourth, talk to the fine staff at the Office of Personnel Management. We wouldn't have made it through this year without their constant help and advice. Share your plans with them, especially with the Retirement and Insurance Group who will process retirement applications. Fifth, agencies must focus on the employees who will remain after the buyouts. They need positive attention, counseling, training and feedback. They are the ones on whom our future depends and on whom the dramatic change envisioned by the NPR will have the most impact. Finally, call us if you have questions—we've been, there!

In conclusion, let me say again that the program, managed correctly, works. It will help reduce and balance the Federal work force. Employees support it and when the trade-off is involuntary separations there is no other choice.

Ms. NORTON. I am going to vote and will be right back.

Let me assure those who have been waiting that the hearing will not last much longer. It was necessary to keep the OPM on for a long period of time, given the vagueness of their proposals and the reality that they are the predicate for everything else, including how we view the rest of the testimony, but we do not anticipate nearly that amount of time for the remaining witnesses. I apologize to them that they have had to wait.

We are going to vote now, and we will be right back.

Thank you, Mr. Sanders. We would like to ask you a few questions if you would wait for us.

Mr. SANDERS. Sure, I will stand by.

[Recess.]

Ms. NORTON. Mr. Sanders, in your testimony you indicated that you had worked closely with OPM. I was pleased to hear that because you said also that you put a premium in the process on communication to employees.

In working with OPM, was there advance guidance given, for example, at installations so that people might have some idea of how you go about this in a way that met the coherent needs of the department?

Mr. SANDERS. Not from OPM. Again, we, in my office and OPM, have viewed these incentives as a means to an end. We have simply provided our managers the tool. They understood implicitly and explicitly they were to yield that tool in furtherance of the President's budget objectives and the Secretary's program objectives.

Ms. NORTON. Did you provide them guidance, you in the Defense Department?

Mr. SANDERS. Not me personally, but, yes, the Defense Department provided them the program guidance. For example, here is the workload that is coming down. These are the programs that are being cut. You identify the civilians that are associated with those programs. We want you to minimize involuntary separations. Use the incentives accordingly.

Ms. NORTON. Seems to be a pretty good checklist, frankly, of how to proceed. Concededly, parts of DOD are much more like the manufacturing in the private sector than many Federal agencies. But, again, here are the programs; here is the workload; here is what we need; now you go to it, and you gave people the flexibility to go to it. What we want to make sure we have from OPM is that kind of effect.

We are, of course, concerned with whether H.R. 3218, as the bill before us, will really help the government avoid RIFs entirely. Since the Defense Department has been offering a buyout program to its employees similar to our proposal for some time now, we would like to learn as much as we can from your experience already. Your testimony has allayed some of our fears, if we can be assured that that experience is being drawn upon.

Are you working with or sharing your experiences with the OPM or with other agencies at this time?

Mr. SANDERS. We have certainly been working closely with OPM. Len Klein's staff, Len Klein personally, he and I were there at the beginning of the initial design of our incentive program, and, obviously, given the importance that voluntary early retirement plays in our incentive program, Len Klein's shop approves those for us, so we are on the phone with his people a dozen times a week.

And we have been over to a number of Federal agencies now in the last several months as it has become apparent that the administration was going to propose some sort of buyout scheme, and we have briefed them on the DOD experience, how we planned for it, how we executed it.

Ms. NORTON. DOD is the one agency, given the downsizing in the military that is necessary during this time, that one might have expected RIFs, and you have virtually eliminated them, even as projections said you could not.

I think this experience is vital to the other agencies and must be maximally used if government-wide experience is to be anywhere near as successful. Here is a model and a huge one right in our midst at DOD, and you seem to have understood how to do it right. I congratulate you.

Beginning in January, 1993, when the voluntary incentive pay program was first available, how many employees at DOD were eligible for optional retirement and how many were eligible for early retirement?

Mr. SANDERS. DOD-wide, we had about 65,000 employees who were eligible for regular optional retirement, about 110,000 for early retirement.

Ms. NORTON. And what percentage of those eligible for optional retirement took the buyout and what percentage of those eligible for early retirement took the buyout?

Mr. SANDERS. Let me give you percentages in both cases but qualify them.

We did not offer them, as you know, across the board. We offered these at installations or in our major commands so that not all 65,000 optional retirement eligible had incentives for that. Of those targeted about 42 percent took it. That is compared to our normal retirement rate, which is averaged over the past decade or so with some ups and downs, of about 30 percent. With early retirement, we got 26 percent takers from among those who were actually offered the incentives.

We normally, I guess, up until the last two or three years, had averaged 16 to 18 percent take rate when we offered early retirement. But, for a variety of reasons, the economy, anticipation of buyouts, a whole number of factors, particularly the drawdown in the defense industry generally, our take rate for early retirements without incentives had dropped to about 4 percent.

So in both cases we had a net gain in takers, from 30 percent to about 42 percent, amongst regular retirement eligibles and from 4 percent or 16 percent, depending on which benchmark you use, up to 26 percent for early retirement eligibles.

Ms. NORTON. It is my understanding that some agencies in the Defense Department have offered to buy out as many as three times since January of 1993, and that with each offering the rates of people taking it declined significantly. Is this so? And, if so, how can you explain it? How do you explain it?

Mr. SANDERS. I do know we have in some installations offered these on multiple occurrences, in large part because of the timing of this. We confronted a fiscal 1993 problem early in the year and used the incentives to deal with that fairly successfully. We are already now trying to get a head start on fiscal 1994, so in some organizations you may see multiple offers.

I am not aware of any evidence that the take rate declines markedly through multiple offerings. That may be true, but I am just not aware of any.

Ms. NORTON. Do you expect the buyout program at DOD to preclude involuntary separations in the fiscal years 1994 through 1997, the outyear when your authorization expires?

Mr. SANDERS. We will do everything we can to do that. Unfortunately, I cannot tell you that we will zero out the number of involuntary separations. There are so many factors involved and the potential for imbalances between people who are willing to take the incentives and workload or budget reductions, that some reductions in force are inevitable.

As I suggested to you, we are using these both before a RIF to try to avoid them but we are also using them after a RIF in order to create placement opportunities.

Ms. NORTON. And, of course, your downsizing is very different than that of the rest of the government.

Mr. SANDERS. Yes.

Ms. NORTON. Because the fact is that we are eliminating the need, and demonstrably so, for much of what you did. Whereas, in other agencies, we are going at what are called efficiencies without nearly the clarity that, for example, comes from closing a base. So that, while I regard your experience as absolutely essential, at the same time I recognize that there are critical differences.

Mr. SANDERS. You are exactly right.

Ms. NORTON. You indicated less than 3,000 involuntary separations with 70,000 who took one or another form of your program. Will the Defense Department involuntary separations increase as you get toward the end of this program? Are you going to have a kind of balloon effect at the end or do you see this as accomplishing its purpose in a measured way year by year?

Mr. SANDERS. We hope for the latter. We have tried to, as best we can—and that is subject, again, to decisions by OMB and the President and decisions by the Congress—but we have tried to bring down the Department's civilian workforce at a fairly even pace between now and fiscal 1997, or even fiscal 1999, which is the end of our defense planning period, hopefully keeping it below that threshold that would allow us to avoid most involuntary separations.

Ms. NORTON. Since some agencies within the Defense Department still need to reduce by nearly as much or, for that matter, more individuals than they have lost with all of their buyout efforts put together, and the rate of people taking the buyouts is decreasing, how do you expect these agencies to reach their targets without forced separations through RIFs?

Mr. SANDERS. Well, again, I think we are taking two swipes at it. If, in fact, the take rate declines over time, and that may be true, all that means is that people will not leave voluntarily before a RIF.

But, remember, again, that once we issue RIF notices we are offering incentives to a completely different group. We are literally name by name and job by job matching people up in surrounding installations and saying, Fred over here is about to lose his job. Mary, you are retirement eligible at this other installation. Will you take the incentive and create a vacancy for him? And, in fact, that seems to be working well.

So while the initial target population may have a half-life, if you will, the law of diminishing returns, the second swipe at it, the expansion of the offer of incentives to create placement opportunities, I hope that the diminishing returns there is lessened.

Ms. NORTON. Do you give notice beforehand you are going to have to do RIFs unless there are more buyouts? Or do you always do the RIF when you get to that point and then look to match up employees with jobs?

Mr. SANDERS. Again, we have a multiyear approach. This idea of force shaping, to the extent we can identify surplus skills, two or three years out we will offer incentives then. But, in most circumstances, we are offering the incentives when we know that a reduction in force is imminent.

So we will go ahead and do all of the RIF planning associated with that, identifying people in surplus skill categories, et cetera, offer the incentives, and Secretary Aspin has said we will offer incentives for at least 30 days before you issue RIF notices and preferably 60.

Once those offers are made and the takers leave, we issue the RIF notices to whoever is left. If we get enough people to take the incentives, obviously, we do not issue notices, and we have been able to achieve that in many places in the Department.

Ms. NORTON. But if it had to do the RIFs, that would be after you have all the bumping and seniority factors that kick in?

Mr. SANDERS. No, we have managed to—in those cases, for example, where we have enough people to leave before we issue notices, we have avoided all the bumping and retreating associated with a RIF.

Ms. NORTON. I know. I understand that. But if you had to go to RIFs, you would not get nearly the rational downsizing that I take it you get with your incentives. Because with your incentives you target—with RIFs you would be into bumping and seniority, wherever that takes you, would you not?

Mr. SANDERS. That is correct. Once the notices are issued, we know after all the bumping and retreating has run its course who is actually in danger of being fired. And those are the people we focus on, those at the bottom of the food chain, if you will, in terms of identifying placement opportunities for them in the commuting area.

Ms. NORTON. That is how you go about matching up.

Mr. SANDERS. Yes.

Ms. NORTON. And that is commendable. But, at the same time, if, in fact, you were not able to match up the RIFs and RIFs became the way you had to make your savings, you might well be left with a quite irrational and unbalanced workforce because of the way RIFs and seniority necessarily works.

Mr. SANDERS. Yes.

Ms. NORTON. That is to say, by that single factor of seniority rather than by management needs.

Mr. SANDERS. That is certainly a potential, yes. So far, we have managed to avoid it.

And particularly one of the positive side effects of this has been that our diversity has actually kept pace with the drawdown, and in some cases has even improved, in large part because, as I suggested earlier, most of the takers are predominantly white male.

Ms. NORTON. Yes, I noticed that in your testimony, and you may be having a salutary effect in terms of retention of minorities in this way, but have you discussed this, the very proactive approaches you are using, for example, of matching people who might otherwise have to leave with people who would not? Have you discussed this with OPM or other agencies as a way to proceed?

Mr. SANDERS. Yes, we have. We have taken the position in DOD that we are going to take care of our own. And I know other agencies feel the same way and I suspect would be interested in setting up similar programs within their own boundaries.

Ms. NORTON. The energy in the proactive approach of DOD may be the sine qua non of a program working, and I commend you for the way in which you have understood that these are people who are also in the service of their country and they should not be victims of conversion.

You also have helped this committee enormously with your testimony because it gives us a real-life example to work from. Thank you very much.

Just a second, please. Thank you very much, Mr. Sanders.

Mr. SANDERS. Madam Chair, could I add two points quickly, as we close?

Ms. NORTON. Yes.

Mr. SANDERS. First of all, from a practical standpoint, I would urge—this is not the administration talking; this is just old me—I would urge quick passage to have whatever you are going to do simply because employees are waiting. They are watching and waiting, and they are literally deferring retirement and attrition decisions while they watch. And that means, in the case of the Department, for example, involuntary separation numbers go up.

Secondly, if there is anything you can do to avoid giving employees the impression that they are going to get a better deal. I gave you the example we had at Norfolk where the rumor spread throughout the base that employees thought we would up the ante. As a consequence, we ended up firing 60 more employees than we needed to because 60 other employees took back their acceptance of the incentive.

So if there is a way you can communicate that to employees, too. Once this is done, this is it. You are going to get this chance and this chance only and let us get on with it. Otherwise, the tool becomes less effective.

Ms. NORTON. I think those are important words of caution. And I am pleased and commend the administration for getting its bill over here right away. And you will see that this committee has held a hearing at the first possible opportunity. And let me say for the record that the full committee will hold its hearing within the next few days. The Senate is proceeding on the same fast track, and both Houses are proceeding with strong bipartisan support.

Mr. SANDERS. I commend you for that. That is exactly what needs to be done.

Ms. NORTON. So I think we are sending the right message out. Thank you very much, Mr. Sanders.

There is another vote. I will be right back.

[Recess.]

STATEMENTS OF JOHN N. STURDIVANT, PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES; SUSAN SHAW, ASSISTANT DIRECTOR OF LEGISLATION, NATIONAL TREASURY EMPLOYEES UNION; H. STEPHAN GORDON, GENERAL COUNSEL, NATIONAL FEDERATION OF FEDERAL EMPLOYEES; DENNIS ROTH, EASTERN AREA FEDERAL VICE-PRESIDENT, INTERNATIONAL FEDERATION OF PROFESSIONAL AND TECHNICAL ENGINEERS; AND CHRIS SULLIVAN, LEGISLATIVE DIRECTOR, NATIONAL ASSOCIATION OF GOVERNMENT EMPLOYEES

Ms. NORTON. I am very pleased to welcome the next panel of witnesses and want to proceed without calling out their names one by one, with Mr. John Sturdivant, President of the American Federation of Government Employees.

Mr. STURDIVANT. Thank you, Chairwoman Norton. Thank you for the opportunity to testify.

I am the National President of the American Federation of Government Employees, the AFL-CIO, and on behalf of more than 700,000 Federal and District of Columbia employees our union represents, I thank you for the opportunity.

Reducing Federal employment levels while at the same time improving service to the public will be a difficult task, but we believe that the proposals under consideration today reflect the philosophy which has animated the administration's reinventing government initiative and to that end we support them. And, in fact, the recommendations, for the most part, track recommendations that AFGE made to the administration early on, in what we called our management reduction incentive.

AFGE considers the proposed early retirement/separation formula proposed by the administration to be fair but incomplete. In particular, two items are missing from the proposals. AFGE believes few Federal employees will be interested in taking the risk of leaving their jobs voluntarily without the protection of continued health insurance coverage, and the President himself has emphasized numerous times that one of the failures of the current health-care system is the fear of losing coverage, which ties workers to jobs that they would otherwise leave.

Thus, eligibility for continued coverage under FEHBP as well as continuation of the government's contribution to the premium should continue for 18 months in cases where Federal employees resign their positions voluntarily and do not meet the current conditions for annuitant coverage.

The second shortcoming of the proposed legislation in AFGE's view is that agency management would have the sole authority to decide which groups of employees would be eligible for the separation incentives. Which areas of an agency's operations can afford to lose employees seems to be exactly the type of issue that the newly created National Partnership Council should help decide.

We understand the foundation of the partnership program to be the administration's recognition that the knowledge and experience of front-line workers are valuable in making precisely these types of decisions. AFGE believes the perspective of workers is invaluable in identifying areas of the government where service can be improved despite job cuts or at least where the smallest detrimental effects to policies and programs would result.

We also think that it would not look very well to Federal workers if the very first implementation of the reinventing government policy, that of eliminating over 252,000 jobs, is accomplished at the sole discretion of agency management. One of the primary goals of President Clinton's effort to reinvent government is the shrinking of supervisory to nonsupervisory ratios. The President wants a greater than 50 percent reduction in this ratio from the current 7 to 1 to 15 to 1 so that it more closely resembles that of large private-sector firms.

There is broad agreement that several layers of middle management need to be eliminated if the Federal Government is to approach the model of lean, mean entrepreneurial operation, and, with your permission, I would like to revise my remarks. I don't want the government to be mean, I want the government to be responsive, effective and efficient.

AFGE believes that the buyouts should be considered first and foremost as a means to reduce unnecessary layers of management.

Our last criticism of the proposed legislation concerns a formula for the early retirement voluntary separation. Again, we believe

this is a proper subject for collective bargaining or for consideration by the partnership council. Either way, we see potential for problems because the proposal specifies the government would pay the lesser of \$25,000 or the amount the employee would be paid in severance pay if he or she were eligible for severance pay.

We base our objection partly on the fact we see this bill as a first step in the administration's effort to streamline government by reducing the ranks of middle management, and I want to commend you for your comments to the individuals from OPM to try to get a little more specific in that direction if we are going to meet these reinventing government goals.

Eligible workers will consider the buyout option with the knowledge that the administration has pledged to eliminate more than 250,000 Federal jobs. Inevitably, those whose severance pay would exceed \$25,000 if they were to lose their jobs would consider it advantageous to let the buyout opportunity pass in favor of a chance to get RIF'd.

In order to forestall this gaming of the system, we believe that it might be wise to replace the ceiling of \$25,000 with the percentage of final salaries, such as 50 percent, not to exceed the value of the severance package for which the employee would be eligible under other circumstances.

AFGE believes that with these adjustments the early retirement voluntary/separation program will be highly successful. The approach adopted by the administration in this legislation is evidence that it plans to keep its promise to minimize economic disruption for individuals as it goes forward with its plans to reinvent government.

I would also like to introduce an issue related to overall reductions in the Federal Government, including both DOD and civilian agencies. This is the need to have open, mandatory placement for all displaced employees into vacancies in all agencies. In other words, AFGE supports a mandatory placement system that requires all government agencies to hire qualified employees being displaced from other agencies.

This overall government placement system would provide substantial savings by reducing severance pay, unemployment insurance, training costs, moving costs and other related costs. The combination of DOD base closures and civilian agency reductions has reached the point that requires mandatory placement of displaced employees in every agency. AFGE supports implementation of this type of government-wide placement system, and we need to move quickly in this direction and use all available technology for this purpose.

This concludes my testimony, Madam Chair, and if you have any questions, I will be happy to try to respond.

Ms. NORTON. Thank you, very much, Mr. Sturdivant.

[The prepared statement of Mr. Sturdivant follows:]

PREPARED STATEMENT OF JOHN N. STURDIVANT, PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Chairwoman Norton, Chairman McCloskey, and members of the Subcommittees: My name is John Sturdivant, and I am the National President of the American Federation of Government Employees, AFL-CIO. On behalf of the more than 700,000 federal and District of Columbia employees our union represents, I thank you for

the opportunity to testify today. Reducing the federal employment levels while at the same time improving service to the public will be a difficult task. We believe that the proposals under consideration today reflect the philosophy which has animated the administration's reinventing government initiative, and to that end, we support them.

The proposed legislation addresses two aspects of the problem of how to reinvent government so that fewer, but more empowered and highly skilled federal employees will be able to perform the work of the federal government in the most efficient and effective way. AFGE appreciates that the administration's approach is consistent with its pledge to use outright "reductions in force" (RIFs) as a last resort to reducing the size of the federal workforce. Instead, they propose to offer positive, early retirement incentives to encourage federal employees to leave their jobs voluntarily.

AFGE considers the proposed early retirement/separation formula proposed by the administration to be fair but incomplete. It closely resembles the buyout program passed last year for employees of the Department of Defense whose jobs were eliminated through post-Cold War defense downsizing. But from the perspective of effectiveness in targeting particular groups of federal employees, we believe that some adjustments will be necessary.

In particular, two items are missing from the administration's proposals which are crucial to both the programs's success and its *overall* fairness. AFGE believes that few federal employees will be interested in taking the risks of leaving their jobs voluntarily without the protection of continued health insurance coverage. Together with the cash incentives, the option of continued coverage under the Federal Employees Health Benefits Program (FEHBP) would give federal employees considering the buyout option an important measure of economic security as looked for new employment. The President has emphasized numerous times that one of the failures of the current health care system is that fear of losing coverage ties workers to jobs they would otherwise leave.

Private sector workers who lose their jobs through reasons other than "just cause" have access to continued coverage under their employer's policies for up to eighteen months under the COBRA law. Federal employees who take the early retirement option will continue their eligibility for FEHBP coverage as annuitants, as long as their previous enrollment included the last five consecutive years of employment. But those who do not meet the current eligibility requirements for annuitants, either by virtue of inadequate length of service or inadequate length of enrollment, will need continued access to health insurance as part of the separation incentive. AFGE believes that eligibility for continued coverage under FEHBP, as well as continuation of the government's contribution to the premium, should continue for eighteen months in cases where federal employees resign their positions voluntarily and do not meet the current conditions for annuitant coverage.

The second shortcoming of the proposed legislation in AFGE's view, is that agency management would have the sole authority to decide which groups of employees will be eligible for separation incentives. Which areas of an agency's operations can afford to lose employees seems to be exactly the type of issue the newly created partnership councils should decide. We understand the foundation of the partnership program to be management's recognition that the knowledge and experience of front-line workers are valuable in making precisely this type of decision. AFGE believes that the perspective of workers is invaluable in identifying areas of government where service can be improved despite job cuts, or at least where the smallest detrimental effects to policies and programs would result.

The administration has stated repeatedly that it understands federal workers may be skeptical and even suspicious of the type of fundamental change it envisions if workers feel as though they are "targets" of change rather than the "agents" of change. Federal workers on the front-lines will not be supportive of reinventing government if they sense that management views *them* as the problem to be solved. The recommendation which issued from Vice President Gore's National Performance Review include specific promises to involve front-line workers, through both partnership councils and the collective bargaining process, in crafting solutions to government's operational problems.

In this context, one should consider how it will look to federal workers if the very first implementation of the reinventing government policy—that of eliminating over 250,000 jobs—is accomplished at the sole discretion of agency management.

Putting the decision of who will be eligible for the buyouts before joint labor-management partnership councils is not merely a matter of courtesy. AFGE does *not* view partnership councils as workers' opportunity to be "informed" or "consulted." We know, and we hope that the administration believes, that worker input will have enormous practical value.

Some federal employees view the buyout offers as a wonderful opportunity: a financial windfall, a chance to pursue a new career, an opportunity to begin retirement while still in good health, etc. Others are threatened and fear for the loss of a job they want dearly to keep. Still others will resent the elimination of jobs in their office, region, agency, or program; on the grounds that their experience argues for staffing *increases*, and that their personal workloads may increase to insupportable levels.

All of these views may be right. Who receives buyout offers, or who gets stuck with buyouts, is a very difficult question. It's the type of question AFGE considers too important to be left to management alone. A case in point is the policy adopted by management at the Library of Congress: the first 250 employees in line tomorrow, Thursday, October 14, will get the buyouts. Their separations will be effective immediately. No consideration will be given to the actual operational needs of the organization in allocation of the buyouts. Just: first come, first served.

Thus, a further difficulty with allowing management sole authority over which groups will be offered the buyout options is that it may conflict with one of the primary goals of President Clinton's effort to reinvent government: the shrinking of supervisory/non-supervisory ratios. The President wants a greater than 50 percent reduction in this ratio, from the current 7:1 to 15:1 so that it more closely resembles that of large private sector firms.

This is an issue AFGE brought to the administration's attention repeatedly, both during the budget debate and during the National Performance Review. There is broad agreement that several layers of middle management need to be eliminated if the federal government is to approach the model of lean, mean, entrepreneurial operation. AFGE believes that the buyouts should be considered, first and foremost, a means to reduce unnecessary layers of management. And we support doing so in the most efficient and humane manner possible.

Our last criticism of the proposed legislation concerns the formula for the early retirement/voluntary separation. Again, we believe that this is a proper subject for collective bargaining or the partnership councils. Either way, we see potential for problems because the proposal specifies that the government will pay the lesser of \$25,000 or the amount the employee would be paid in severance pay, if he or she were eligible for severance pay.

Again, we base our objection partly on the fact that we see this bill as the first step in the administration's effort to streamline government by reducing the ranks of middle management. Eligible workers will consider the buyout option with the knowledge that the administration has pledged to eliminate more than 250,000 federal jobs. Inevitably, those whose severance pay would exceed \$25,000 if they were to lose their jobs would consider it advantageous to let the buyout opportunity pass in favor of a chance to get RIFed.

In order to forestall this "gaming" of the system, we believe that it might be wise to replace the ceiling of \$25,000 with a percentage of final salary, such as 50 percent, not to exceed the value of the severance package for which the employee would be eligible under other circumstances.

AFGE believes that with these adjustments, the early retirement/voluntary resignation program will be highly successful. The approach adopted by the administration in this legislation is evidence that it plans to keep its promise to minimize economic disruption for individuals as it goes forward with its plans to reinvent government.

AFGE also supports the portion of the legislation designed to expand opportunities for all federal employees to receive the training they need to meet the challenges of a restructure federal workplace. We have been enthusiastic supporters of the administration's goals of treating front-line federal employees as partners in this mission. But to take on the added responsibilities which true partnership will entail, workers will need access to continual training to upgrade skills and/or learn the new skills that evolving technology and the new organization of work will require.

I would like to also introduce an issue related to overall reductions in the Federal Government, including both DoD and civilian agencies. This is the need to have open, mandatory placement for *all displaced employees* into vacancies in *all agencies*. In other words, AFGE supports a mandatory placement system that requires all government agencies to hire qualified employees being displaced from other agencies. This overall government placement system would provide substantial savings by reducing severance pay, unemployment insurance, training costs, moving costs, and other related costs. The combination of DoD base closures and civilian agency reductions has reached the point that requires mandatory placement of displaced employees in every agency. AFGE supports implementation of this type of government-wide placement system and we need to move quickly in this direction and use all available technology for this purpose.

This concludes my testimony. If you have any questions, I will be happy to respond.

Ms. NORTON. We will hear next from Ms. Susan Shaw, Assistant Director of Legislation, National Treasury Employees Union.

Ms. SUSAN SHAW. Thank you, Madam Chairwoman. I will briefly summarize our written testimony.

H.R. 3218 represents a humane alternative to reductions in force as a way to achieve staff reductions in the Federal Government. We are quite supportive of the Federal Workforce Restructuring Act. However, we also have several suggestions for improving the legislation.

As was pointed out earlier today in questioning of OPM, we are concerned about Federal agencies receiving guidance so that they structure their early-out program so that the manager-to-employee ratio is not identical following the conclusion of this early-out process. Our own analysis, some work that we have done, has shown that if the Federal Government were to adopt a manager-to-employee ratio of even 1 to 11, approximately 200,000 management positions could be eliminated over the next couple of years.

We would also like to see an 18-month continuation of employer premiums towards health benefit coverage for employees taking early outs. We think this will spur a greater participation in the early-out effort. Certainly the administration has been quite eloquent in recent days about how employees fear losing their health insurance in leaving their jobs. This would be an important improvement in the legislation.

We would also like to see the early-out and separation incentive program extended into the first quarter of fiscal year 1995. We are quite concerned that by the time agencies have their early-out programs in place, a sizable portion of the current fiscal year will have elapsed, and once the bulk of an employee's salary has been paid, the agency is going to be presented with a financial predicament if they wish to offer separation incentives to these employees. It might make sense to allow agencies to continue to offer these incentives into the first quarter of fiscal 1995.

We also want to point out that we are particularly supportive of provisions in the legislation to revamp Federal training programs.

That concludes my oral remarks. I would be happy to answer any questions as well. Thank you.

Ms. NORTON. Thank you very much, Ms. Shaw.

[The prepared statement of Mr. Robert M. Tobias follows:]

PREPARED STATEMENT OF ROBERT M. TOBIAS, NATIONAL PRESIDENT OF THE
NATIONAL TREASURY EMPLOYEES UNION (NTEU)

I am Robert M. Tobias, National President of the National Treasury Employee Union (NTEU). On behalf of the 150,000 federal workers represented by NTEU, I want to thank you for scheduling this hearing today on H.R. 3218, The Federal Workforce Restructuring Act of 1993.

H.R. 3218 authorizes a one-time government-wide, early retirement program coupled with separation incentives. Early retirement would be available to workers who have 20 years of federal service at age 50 or 25 years of service at any age. Furthermore, the legislation will authorize agencies to offer separation incentives of up to \$25,000 to employees who voluntarily leave their positions. In keeping with the National Performance Review's (NPR) recommendation that the federal work force be reduced by 250,000, the legislation would help accelerate a reduction in employment levels across the federal government through the use of attrition, early retirements

and cash incentives. Furthermore, the legislation proposes a needed overhaul and renewed commitment to government training programs.

The early retirement option is an important and popular idea with federal workers. NTEU applauds the Administration for adopting this accepted private sector practice of offering incentives to encourage employees to voluntarily leave payrolls when work force reductions are imminent. NTEU's goal in any downsizing is to make involuntary separations unnecessary. This legislation represents a humane and viable alternative to reductions in force as a means of achieving staff reductions.

It also represents an excellent tool for addressing the NPR's well-founded concern that the manager to employee ratio in the federal government is excessive. In focusing on how the government *should* work, the NPR criticized the government's manager to employee ratio which, depending upon the agency, is somewhere between 5 and 7 employees to each federal manager. Reducing the layers of management alone will move us closer to the NPR's goal of streamlining the federal government. Private sector ratios are more normally in the range of 1 manager to each 15 employees. If the federal government were to adopt a manager to employee ration of even 1 to 11, approximately 200,000 management positions could be eliminated over the next few years.

While NTEU is generally supportive of H.R. 3218, there are several recommendations for improvements we would like to suggest. As part of the Department of Defense (DOD) Authorization legislation, early out and separation bonus authority similar to that contained in the legislation under consideration today was offered to workers in DOD. One provision of particular interest in the DOD legislation was its requirement that the government continue to pay the employer share of Federal Employees Health benefits (FEHB) premiums for DOD employees who were involuntarily separated. Where layoffs occurred, the government continued to pay its share of health premiums for 18 months. We are now faced with a broad downsizing effort involving federal workers in every part of the Nation and from every federal agency. As this Administration has stated so eloquently in recent days, one of the largest fears an employee faces when deciding to leave his or her job is the availability of continued health insurance benefits. I recommend that the Post Office Committee consider an 18 month continuation of employer health benefit premiums for individuals leaving federal service as a result of the current downsizing effort. By continuing health benefit coverage for employees voluntarily leaving their jobs, yet not eligible for retirement and continued FEHB coverage, we can accomplish two important goals.

First, we will not add to the growing number of individuals in this country who have no health insurance protection because they are either ineligible or unable to afford its costs. Secondly, if we are serious about reducing the size of the federal work force, providing a short 18 months of continued employer premiums for health insurance can only serve to spur even greater interest and participation in the effort. Individuals who might otherwise take advantage of this early out/separation incentive program may be frightened off by the very real fear that they will be unable to obtain or afford health insurance on their own. Providing a health care safety net for these workers is a rational and fair consideration that I urge this body to review in the context of this legislation.

This measure also provides for early outs and separation incentives to sunset at the end of Fiscal Year 1994. The Administration presented this proposal to Congress on October 1 and under the best of circumstances, agencies are unlikely to have programs in place to make early out offers to their workers much before the beginning of December. It is in each individual agency's interest to make separation incentives available to its employees as early in the Fiscal Year as possible. Once the bulk of an employee's salary for the year has been paid, the agency will be presented with a financial burden if it wants to offer its employees separation incentives. For this reason, I would recommend that the provisions of this legislation continue to be available through the first quarter of Fiscal Year 1995. Agencies that are unable to take advantage of the early months of the current Fiscal Year and offer separation incentives to the maximum number of eligible workers, will have another opportunity to downsize while it is in their budgetary interests at the beginning of the new Fiscal Year.

We also hope that the consequences of this early out proposal will not be an escalation of the contracting out of government services. The legislation requires that employment ceilings be lowered by one full time equivalent position for each two employees who receive separation incentives. In the past, reductions in federal employment levels have created incentives for agencies to contract out work in order to accomplish their missions while keeping payrolls artificially low. Frequently, contracted out work has resulted in cost overruns and a reduction in the quality of

work performed. Furthermore, the use of contracting out to circumvent employment ceilings would eliminate any cost savings this proposal may achieve.

We would also ask that the Post Office and Civil Service Committee again consider H.R. 1034 as it reviews methods for downsizing the government. This measure would extend 20 year retirement benefits to specific Customs and Internal Revenue Service (IRS) employees whose positions are hazardous and physically taxing. These positions include the Inspectors and Canine Officers of the Customs Service who protect U.S. borders and Revenue Officers with the IRS who collect federal revenues. With continuing terrorism and drug smuggling activities and the threats and potential for assault associated with revenue collection, it is more important than ever that we employ a work force capable of meeting these challenges. In the 102nd Congress, similar legislation attracted 300 cosponsors. As the Committee examines the best methods for accomplishing downsizing through attrition, we urge attention to this legislative proposal. Allowing 20 year retirement for those employees who occupy positions where the public's interest is best served by employing a young and vigorous work force makes more sense than ever in the current climate.

NTEU is particularly supportive of provisions in H.R. 3218 to revamp federal training procedures. Current restrictions dictate that any training received by an employee be related to that employee's official duties and position. As the NPR so aptly pointed out, this effectively ensures that a secretary with the IRS, for example, never receives a chance to become a paralegal. Rules such as this keep federal workers single-skilled in our multi-skilled world. Moreover, encouraging training programs that allow employees to acquire skills unrelated to their present positions will better prepare the federal work force for changing times. By linking training to an agency's overall mission, employees will have the skills they need and will be empowered to better solve problems and make decisions.

Successful private corporations have long realized that the most important task in a worker's career is to continue learning and applying the new knowledge to the challenges at hand. Ongoing training is essential for any organization to work well. Many large corporations with successful training operations place their training executive at the very highest levels of the organization. This effectively communicates their commitment to continuing education.

In federal agencies, managers responsible for training efforts are rarely found in the top hierarchy. Furthermore, when funding becomes tight, the training budget is often the first expense to be eliminated. Private firms usually allocate three to five percent of their budgets for training, retraining and upgrading skills; the federal government typically spends less than one percent. While leading corporate executives view training as an investment in the future, to federal managers, training is often little more than a cost that can be ignored. Provisions contained in H.R. 3218 are a step in the direction of changing this practice.

NTEU has developed just such a cutting edge training program with the IRS. Called "IRS University", the training program is patterned after successful private industry efforts and is expected to be fully implemented within the next year. The goal of the IRS University is to give employees the tools and knowledge they need to continue to build a quality IRS into the next century. Under this initiative, both employee and manager workplace skills will be assessed and skill development courses will be established. Program objectives include training a resident IRS faculty made up of employees willing to make a one to three year commitment to the training effort. Too, ongoing skills assessments will pinpoint specific needs and insure that the right employee gets the right training at the right time. The IRS has committed to both allocate *and* protect a full two percent of salary for training. This commitment doubles the current IRS training budget and takes steps to insure that the funding is not lost to budget cuts as has happened in prior years. In addition, under this plan, the IRS would elevate its Director of Training to the position of Assistant Commissioner for Training, again sending a signal that training is an integral part of IRS operations. We look forward to continuing to work with the IRS on this effort and suggest that IRS University may provide a blueprint for other agencies to follow in upgrading their training programs.

In conclusion, NTEU appreciates the swiftness with which the Compensation and Employee Benefits and the Civil Service Subcommittees have scheduled hearings on this important legislation. Your continuing commitment to the Nation's federal work force is appreciated. Thank you for your efforts.

Ms. NORTON. Going next to Mr. H. Stephan Gordon, General Counsel, National Federation of Federal Employees.

Mr. GORDON. Madam Chair, I have carefully listened to the testimony presented today and particularly to the very cogent questions

and comments of the Chair. To read the statement which we have already submitted to the committee would add nothing to the issues and would be repetitive, indeed.

Therefore, Madam Chair, especially listening to my colleagues also, I wish to thank the Chair and the committee for the leadership in protecting Federal employees during the coming downsizing processes, and I look forward to continuing to work with the committee toward swift enactment of a very constructive bill.

And I will be very happy to answer any questions, Madam Chair, but for the sake of the committee's time I will stop here.

Ms. NORTON. Very much appreciate your consideration, Mr. Gordon.

[The prepared statement of Mr. Gordon follows:]

PREPARED STATEMENT OF H. STEPHAN GORDON, GENERAL COUNSEL, NATIONAL
FEDERATION OF FEDERAL EMPLOYEES

Chairwoman Norton, Chairman McCloskey and distinguished Members of the Subcommittees, my name is H. Stephan Gordon and I am the General Counsel of the National Federation of Federal Employees (NFFE). On behalf of the NFFE, which represents approximately 150,000 federal workers in 53 government agencies across the country, I appreciate the opportunity to appear before you today to present our views on H.R. 3218, the Federal Workforce Restructuring Act of 1993.

What brings us here today is the desire by the Administration and the Congress to create a government that works more efficiently and costs less. One method espoused by the Administration for achieving those goals is the reduction of the federal workforce by 252,000 employees. While the NFFE supports a more efficient and cost effective government, we do not believe that the wholesale reduction of the federal workforce is the only tool that can be used. However, we recognize the course the government has taken. Accordingly, we strongly support the expanded use of structured voluntary separation incentives or "buy-outs" in order to increase attrition. We additionally support efforts to expand the training opportunities available to the federal employees who remain behind and who will be left with considerably more work to perform.

Two years ago, we appeared before Congress to advocate the increased use of voluntary separation incentives and expanded training programs for federal employees as a sound method for achieving workforce reductions. In 1992, a limited victory was won with the passage of P.L. 102-966, the National Defense Authorization Act for Fiscal Year 1993, which provided the Secretary of Defense with the authority to offer voluntary separation incentives of up to \$25,000 or the amount of severance pay an employee is entitled to, whichever is less, to select groups of workers. This program has been a success. It has enabled the government to avoid involuntary separations through reductions-in-force as well as the costs associated with such reductions. In addition, it has enabled the Secretary of Defense to maintain control over the downsizing process so that valuable institutional knowledge and skills can be maintained.

Under the terms of H.R. 3218, each agency head would designate a three month time period, or "window", during which the agency would be authorized to pay separation incentives to workers in particular occupational skill categories. Eligibility would be limited to permanent employees who had been employed with the government for at least one year. In addition, authority would be provided to agency directors to delay the actual date of separation for up to two years. We would like to point out that the provision to allow agency heads to pick and choose among employees those who will receive the "buy-out" will potentially result in similarly situated employees in different agencies being treated differently. We believe that this disparate treatment will be compounded by the requirement that agencies fund this program out of existing appropriations. To minimize discriminatory treatment, we would request that Congress exercise its oversight function during the implementation process.

Under section 2 of the bill, federal employees would be eligible for expanded training opportunities in non-government operated programs. For too long, the federal government has neglected to invest in the professional development of its workers. By expanding training opportunities, agencies will enable employees to take advantage of cutting-edge classes and seminars operated by organizations with proven track records for success. The NFFE strongly believes that training programs, and

in some instances, re-training, will be necessary if the "new" federal workforce is to manage the same size (or greater) workload with fewer resources. Expanded training opportunities will enable, the National Performance Review (NPR) to achieve its goal of creating a multi-skilled workforce.

In conclusion, the poor economy has caused many workers to re-evaluate their retirement plans and needs. Consequently, it will be difficult for the Administration and Congress to achieve the drastic workforce reductions they seek without providing employees with a reason to voluntarily leave their jobs. We believe that the expanded use of early retirement incentives will reduce the need for costly involuntary separations. Moreover, through this type of program, the government will be able to exercise more control over the downsizing process thereby maintaining valuable institutional knowledge and skills. Madam Chair and Chairman McCloskey, I appreciate the opportunity to appear before you today to present our views on H.R. 3218. We thank you for your leadership on the issues of protecting federal workers during the downsizing process. We look forward to working with you towards the swift enactment of this bill. This concludes my statement. I will happy to answer any questions you have.

Ms. NORTON. Going next to Dennis Roth, Eastern Area Federal Vice-President of International Federation of Professional and Technical Engineers.

Mr. ROTH. Good afternoon, Chairwoman Norton.

Again, my name is Dennis Roth. I am the Eastern Area Vice-President for the Federal workers of the International Federation of Professional and Technical Engineers and also President of the union representing the employees at the Congressional Research Service at the Library of Congress.

I thank you for giving us the opportunity to testify this afternoon. And sometimes you are lucky because I think, given all your concerns raised this morning with OPM, I think you need to look in your own backyard at the Library and see it is not doing anything, anything at all, about efficiency, about human beings being dealt with, and there is an opportunity for you to call over there this afternoon and say, hey, why don't you hold up because they are not accepting applications until tomorrow morning.

There was a special announcement delivered this morning telling you because they believe in this stampede mentality how they are going to handle that, how you will have to form up, not hang out in the Library overnight so you can be the first in line. I think this is ridiculous, and for you to be going through this debate now and discussion on how to do something properly, to have something go on like is going on in the Library sets a bad example, and that is about all it is good for is a bad example.

The bill you have before us today really has two components, a training component and the early-out component, the buyout component. Since those retiring will be the most experienced Federal workers it is important the remaining workforce be given the opportunity to acquire the skills, knowledge and abilities to get the job done. Offering training is a direct way of easing the transition into a downsized government, enhancing upward mobility opportunities and improving the diversity in the higher level government positions.

If the separation incentives of this bill are successful, many opportunities should become available. Thus it is important to give agencies not only broader authority for training, it is also important to have them demonstrate how they will use this authority for the upward mobility of all current staff including, but not limited to, women and minorities.

We recommend you require a training plan be submitted to OPM and the Congress within three months of the use of the separation authority granted by this legislation.

I base these training concerns on my experience with the Library of Congress.

The long-run workforce planning, taking into account factors other than dollars and cents, it is practically nonexistent, and I am sure this is the case in other agencies and not just the Library. All agencies must establish long-term staffing plans and evaluate their existing workers for filling these staffing needs.

It never ceases to amaze me that managers hire the best person to fill any given position, but when it comes time to retrain for upward mobility it is always felt it is better to go outside and look for fresh staff.

Before a training plan can be developed, however, agencies need to develop three to five-year staffing plans. Based on this information, agencies can determine how they can use their existing workforce to meet their staffing needs. This is especially important given the broadening of the training authority of the bill before us today.

Also, training comes out of existing budgets. Again, if they don't have to pay extra money for the early-outs and also for training, we find training a decreasing element. It is nice to authorize it, but you have to make sure there is funding for it.

With respect to the separation incentive portion of the legislation, I would again like to focus on what is happening at the Library of Congress. First and foremost, extensive planning is required. What needs to be considered is not only implementation but also the impact. We must ask pertinent questions including who, how and what impact will be placed on the persons who will be responsible for keeping the flow of work continuous.

Second, in those agencies that have unions there is an obligation to bargain. This has been a big sticking point at the Library of Congress. We have not gotten the Library to bargain with us, and we are not sure what our next steps will be.

Third, I think you need to keep in mind you are dealing with your long-term employees, people who have dedicated their lifetimes and their careers to the Federal service.

And, fourth, don't let the objective of saving money, which you heard from OPM—let's get them out as soon as we can because that is how you save the money—make you forget the other three items I mentioned earlier because that is what is happening at the Library. The incentive is to get them out so that we can save the money. There is no consideration of do they have adequate counseling.

I am told there are people who will not be counseled until early November, yet the way the program is developed they want people out the door by the close of business tomorrow. The first 250 who line up out there will get the bonus or the early retirement. After that, everything ceases. So there are people bringing clothes, staying with friends in Washington overnight, just so they can come and be there.

I don't know if there will be 250 people there tomorrow, but the mentality is that there will be, and it is demeaning to this dedicated work staff who have given their lifetimes to the Library.

Considerable preparation and planning is required to offer early-out and incentives. When the Library came to the union, they said they had everything worked out and we want to implement it in two days. This is not fair to the union to say how to do it and not have our input to make the necessary corrections. I think you will see the program that the Library has suffers tremendously because of the lack of staffer input.

The 9 percent that you raise as a factor I think greatly deters on the ability of the agencies to offer early-outs. That is one of the reasons the Library has limited to 250. They think that is, quote, unquote, all they can afford. I think they are being shortsighted because, as you noted, you do not want RIFs. So if you can get voluntary retirements, voluntary people to leave, why not accept those now rather than forcing involuntary retirements two years or even 18 months from now?

The very nature of separation bonuses and early-out retirement programs are targeted at an agency's most dedicated workforce. Eligible employees are primarily those who have given their work careers to the agency. However, if you are like, again in the Library where they decided not to offer the discretion that OPM says they could have, it is just the first 250 who decide to come through the door, and what they will do is fix whatever happens later.

If you are really concerned about efficiency, that is certainly not the way to approach the early-out programs and the buy-out programs. Those who remain will have to work harder, in many cases beyond their capabilities. Furthermore, the Library—well, I have already stated that.

The decision to retire is one of the most important an individual will make in his or her lifetime. It is also a decision requiring considerable information. It is important, therefore, that every employee considering retirement be given adequate financial counseling.

As noted earlier, the \$25,000 incentive can be very misleading. Thus, before any agency is given permission to accept applications, they should ensure all employees considering retirement have had retirement counseling. Agencies are so anxious to save the money that they are not really considering making sure that everybody has adequate information to make this lifetime, and in cases in the government irreversible, decision.

In conclusion, I hope that I have demonstrated that there is a human element to retirement on which this legislation remains silent. The Congress should make amendments along these lines, and we hope that you will do this in your further discussion.

Also, please encourage agencies to have unions participate at the early stages of the process. You heard from DOD that they did involve the unions, and you also heard how well the program worked.

And one final request, and that is, as you know, the President put into effect an Executive Order in early October talking about new partnerships. Unfortunately, that Executive Order only applies to the executive branch. We would encourage you and other Members of Congress to encourage the Library and other legisla-

tive branches' agencies that have unions to tell them that you expect the same from them.

Thank you, and I would be glad to answer any questions you may have.

Ms. NORTON. Thank you very much, Mr. Roth.

[The prepared statement of Mr. Roth follows:]

PREPARED STATEMENT OF DENNIS ROTH, EASTERN AREA FEDERAL VICE-PRESIDENT,
INTERNATIONAL FEDERATION OF PROFESSIONAL AND TECHNICAL ENGINEERS

Good morning Chairwoman Norton, Chairman McCloskey, and members of the joint subcommittees. As the eastern area Federal vice president of the International Federation of Professional and Technical Engineers, I wish to thank you for having this timely hearing on the Federal Workforce Restructuring Act of 1993. IFPTE represents 20,000 members nationwide in the Departments of Defense and Interior, NASA, and the Congressional Research Service. At this time I would also like to thank the Office of Personnel Management for their efforts in anticipating needed answers to technical questions regarding the buyouts, and their subsequent briefing to employees' representatives.

The bill we have been asked to consider today has two initiatives: facilitating employee retraining and reducing the overall size of the Federal workforce. The two initiatives complement each other. As the existing workforce is downsized, those remaining will have to fill in the gaps created by those who have retired. Since those retiring will be the most experienced Federal workers, it is important that the remaining workforce be given the opportunity to acquire the skills, knowledge, and abilities to get the job done. Offering training is a direct way of easing the transition into a downsized government, enhancing upward mobility opportunities, and improving the diversity in higher level government positions.

In many cases the most recent hires to the Federal workforce have been women and minorities. These groups, however, have become frustrated because of a lack of upward mobility opportunities in their organizations. If the separation incentives of this bill are successful, many opportunities should become available. Thus, it is important not only to give agencies broader authority for training, it is also important to have them demonstrate how they will use this authority for the upward mobility of all current staff, including but not limited to women and minorities.

We recommend that you require a training plan be submitted to OPM and the Congress within three months of the use of the separation authority granted by this legislation. A plan is crucial because without one training will either not occur or it will be so haphazard that the remaining workers will face extreme difficulty in accomplishing the basic mission of their agencies.

I base these training concerns on my experience with the Library of Congress. Long run workforce planning, taking into account factors other than dollars and cents, is practically nonexistent in the Library. For years the unions at the Library have been encouraging management to establish mechanisms for retraining qualified lower level staff for higher graded positions. For the most part we have not been successful. But now I believe that the Library has little choice, and I don't believe that we at the Library are in a unique position. All agencies must establish long term staffing plans and evaluate their existing workers for filling these staffing needs. It never ceases to amaze me that managers supposedly hire the best person to fill any given position, but when it comes to retraining for upward mobility, agencies always feel it's easier to hire from the outside rather than make the internal effort.

All of you I am sure are aware of the affirmative action problems at the Library; our situation, unfortunately, is not unique. We now have a rare opportunity to make improvements, but they will not occur without planning. Therefore, before a training plan can be developed, agencies should be required to develop three- to five-year staffing plans. Based on this information, agencies can determine how they can use their existing workforce to meet their staffing needs. This is especially important given the broadening of the training authority in the bill before you today.

I would now like to address the separation incentive portion of the legislation. As you know, the Congress gave the Library separation incentive payment authority in its FY94 appropriations bill. The Library also sought and received early out authority from OPM. Numerous lessons have been learned from how the library is trying to implement separation bonuses and early outs.

First and foremost, extensive planning is required. What needs to be considered is the implementation. We must ask pertinent questions including who, how, and what impact will be placed on the persons who will be responsible for keeping the

flow of work continuous. Secondly, in those agencies that have unions, there is an obligation to bargain. Thirdly, remember that you are requesting that your longest term employees retire or separate—these workers have dedicated their careers to their respective agencies, and the program developed must treat them with respect and appreciation. Fourthly, don't let the objective of saving money as quickly as possible in the fiscal year make you overlook numbers one, two, and three. This is particularly true in making sure agencies offer sufficient counseling and decision making time so that people make the right decision. To many the separation bonus sounds enticing, but the bonus itself should not be the reason to retire. Under most circumstances, people will be retiring with about 50% of their incomes (early outs with less); for most people this will not be enough to live on and the bonus will disappear very quickly. Furthermore, the economy remains weak and the probability of finding another job is not good. Retirement must be an informed decision and agencies should be required to ensure that employees have the information and time to make this decision.

PLANNING

Considerable preparation and planning is required to offer a separation and early out incentive program. Planning includes not only the who and how, but also bargaining and consultation. It also includes the consideration of the long run consequences I mentioned earlier in the training section of my testimony. Implementation must never lose sight that the agency is undertaking these initiatives to avoid the need to RIF and/or furlough in the immediate future. The requirement for agencies to pay 9 percent of an early retiree's final pay may, as it has in the Library, cause an agency to focus too much on today's cost rather than on the overall long run downsizing objective. It is better to get voluntary separations today than to force involuntary separations tomorrow. Specifically, the Library has reduced the number of early outs it will offer by cutting them off once the combination of early outs and normal retirements reach 250. This is so even though the Library calculates that it needs to reduce its full time equivalents by 399 by the end of fiscal year 1995. I do not believe that the Library has correctly estimated the negative effect this special program will have on an already low attrition rate.

Every person considering retirement must make an educated decision. Most employees who are retiring under normal criteria have given this decision considerable thought and have already begun to plan. But those being given the early out opportunity, particularly since they are being enticed with a separation bonus, must be given more than a week or two to make a lifetime career changing decision. And this decision must be from the mind and not heart. Twenty-five thousand dollars sounds like a nice incentive; but does fifty percent or less of your pay sound good? Without proper retirement counseling many employees may make decisions that are shortsighted. Consequently, before any agency is permitted to engage in separation bonuses and early out programs, they must be required to ensure that every employee participating has been counseled. It is a must that information given in retirement counseling be accurate. To date, Federal employees have been held accountable for their decisions even though they have received incorrect information from their agencies. The legislation before you needs to be amended to protect employees who may be put in this situation. If given incorrect retirement information, there needs to be a mechanism for re-employment, and its best to take this appeal out of the hands of the agency that gave the incorrect information. Perhaps a joint labor-management board could be established to review any appeals that are made due to bad information.

BARGAINING

Those agencies with unions must not forget their legal obligation to bargain separation bonuses and early out programs. Of course the best way to deal with this would be to bring in the unions from the onset so that the problems are worked out at the beginning rather than at the end. The Library specifically did not do this and now we are at loggerheads. Without early consultation, it is quite probable that bargaining will be prolonged. To be put in this position is detrimental to the program because it can eat into the window of opportunity as it is now doing in the Library. Federal unions realize that downsizing is here to stay and we want to make it a human process rather than a simple saving of dollars process. Consultation with unions at the beginning can give the programs this proper focus.

HUMAN PROCESS

By their very nature separation bonuses and early out retirement programs are targeted at an agency's most dedicated workforce. Eligible employees are primarily those who have given their work careers to the agency. Separation incentive programs must be designed to demonstrate that an agency appreciates these employees. Again I can hold up the Library as a bad example. Library management chose not to exercise its digression and is permitting anyone to leave as long as they meet the age and service requirements. Consequently, there is a high probability that employees with unique skills will retire leaving significant skill gaps that cannot be filled easily. Those who remain will have to work harder, in many cases beyond their capabilities. Furthermore, the Library has demonstrated its lack of respect for its long term employees by creating a stampede mentality. Since early outs will cease after the first 250 retirees—a combination of normal retirees and early out retirees—there is a strong belief that one has to be the first in line in order to get an early out. Staff has come to the unions complaining about this lack of respect but so far the Library does not appear to care. No wonder staff morale continues its free fall in the library.

GIVE EMPLOYEES TIME

The decision to retire is one of the most important an individual will make in his/her lifetime. It is also a decision requiring considerable information. It is important, therefore, that every Employee considering retirement be given adequate financial counseling. As I noted earlier, the \$25,000 incentive can be very misleading. Thus, before any agency is given permission to accept applications they must ensure that all employees considering retirement have had retirement counseling. Agencies that are anxious to save money by encouraging their employees to retire as soon as possible also have the responsibility to ensure that the retirement decision is an informed one. Do not let agencies shirk this responsibility because the program proposed by this legislation stresses saving dollars while ignoring people. Furthermore, the 90 day window creates a hurry up mentality. This is why it is so important not to include retirement counseling as part of this window.

There is an additional factor that is not addressed by this legislation—that of contracting out to retirees. Contracting out, should it be necessary, must be limited to a short time frame. Employees who are needed should not be given the opportunity for separation bonuses or early outs; this is why the legislation permits the two year delay. Of course if employees are eligible under normal retirement criteria there is not much you can do. Long term contracting out not only does not save money, but it also takes away upward mobility opportunities through training that this legislation addresses.

In conclusion, I hope that I have demonstrated that there is a human element to retirement on which this legislation remains silent. The Congress should make amendments along the lines IFPTE has recommended to correct this oversight. Otherwise you may be creating a future group of disgruntled, and perhaps, even homeless people. This would indeed be a sad commentary for the Nation's largest employer. Also, please encourage agencies to have unions participate at the earliest stages of this process. I am experiencing what happens when unions are left out and it is detrimental to the objectives of this legislation and the labor-management partnership initiatives of the administration. In fact, I would like to request at this time that you establish the same labor-management partnership requirement on the Library of Congress that President Clinton established for all other Federal sector unions. We need a change in the labor relations environment as much as any executive branch agency. We would appreciate your assistance.

I will now be happy to address any questions you may have.

Ms. NORTON. Finally, we will hear from Chris Sullivan, Legislative Director, National Association of Government Employees.

Mr. SULLIVAN. Thank you, Madam Chair. I will offer my full statement for the record and briefly summarize and try to bring out a number of the concerns that we have.

First would be the timing of the window. Many of our members believe that the 90 days may not be an adequate enough time, especially as the legislation is currently written the 90-day clock runs from the period when the agency head designates it.

As you know, a lot of times the details of the buyout, as Mr. Sanders indicated, occur along the way, and it will give the individual employees much less time than 90 days. And when we are talking about restructuring of their careers and making important decisions about retirement and beyond, they need the full 90 days. We would suggest a longer time period, perhaps as long as 180.

Secondly, the legislation offers broad discretion to the agencies to exempt out certain positions. We would recommend that the Congress amend this language to make full use of the placement systems. Let me give you an example.

It is very likely that if the VA is granted this authority that they would exempt patient-care employees because of their critical importance. What we would suggest is that an agency be able to take advantage of placement so that if there were patient-care employees in the Defense Department, say nurses in DOD, who could substitute for a VA employee who chose to leave that they should do so. That more aggressive use of government-wide placement systems would save the government money.

Third, I would like to associate myself with the remarks of Mr. Sturdivant and Ms. Shaw on FEHBP. Currently, the way the law works, once you are separated you have a 31-day temporary extension of FEHBP, and if you have worked for the government for five years, you have the option to extend it for another 18 months. At that time, though, during the 18 months, you have to pay both the employee share of the premium and the employer share of the premium, which results in about an increase of 360 percent to the employee in his share of that FEHBP.

We would recommend along the lines of what happened in the DOD authorization bill last year, extending the FEHBP coverage, with the employer picking up the employee's share government-wide, would be very helpful as well. Otherwise, many employees are not going to make the choice to take advantage of these incentives.

Finally, our final concern is of the funding mechanism that is currently in the bill. We are very concerned, as your eloquent statements earlier in the question and answer of OPM pointed out, that the current funding mechanism could really have a drastic effect on agency mission and employee benefits. We would urge the Congress to look strenuously at this provision and whether or not it is in the best interest of the legislation.

I would be pleased to answer any questions that you have.

Ms. NORTON. Thank you very much.

[The prepared statement of Mr. Sullivan follows:]

PREPARED STATEMENT OF CHRIS SULLIVAN, LEGISLATIVE DIRECTOR, NATIONAL ASSOCIATION OF GOVERNMENT EMPLOYEES

I. INTRODUCTION

The National Association of Government Employees is an affiliate of the Service Employees International Union, the fourth largest union in the AFL-CIO. NAGE represents more than 200,000 federal employees in various federal agencies, from civilians in the Defense Department, to employees in the Veterans' Administration, the Forest Service, and the Transportation Department. On behalf of our membership, NAGE is please to appear before a joint hearing of the Subcommittee on Employee Compensation and Benefits and the Subcommittee on Civil Service regarding the "Federal Workforce Restructuring Act of 1993," which allows agencies to use vol-

untary separation incentive payments to encourage Federal employees to resign or retire from the service voluntarily.

NAGE would like to take the opportunity to thank Congresswoman Eleanor Holmes Norton, Chair of the Subcommittee on Employee Compensation and Employee Benefits, and Congressman Frank McCloskey, Chair of the Subcommittee on Civil Service, for their hard work on behalf of the Federal employee workforce during their tenure in Congress. Their efforts are greatly appreciated by the NAGE membership.

As it became clear that the Federal Government would downsize its workforce, especially in defense agencies, NAGE advocated a comprehensive program of retraining, replacement, and buyout procedures for all workers to minimize the impact of downsizing in the Federal Government. NAGE appeared numerous times before these two committees to urge proactive legislation to anticipate changes in the Federal employee workforce. NAGE understands that great changes will occur over the next few years as the government struggles to overcome the crushing debt that has accumulated. NAGE looks forward to working to achieve innovative solutions to the challenges that face the Federal employee workforce in the years to come. We urge that continued legislative steps be taken to ensure fairness to the individual employees affected by the systemic changes that must occur.

As you know, separation incentives have already been approved for defense workers in the FY93 DoD Authorization Act (Public Law 102-484). Generally, this program has run smoothly for the workers who have been offered buyouts. Of course, a continuing concern for the rank and file Federal employees that NAGE represents is that thus far the buyouts have been concentrated on management employees. While we recognize the need to reduce the supervisory workforce, nevertheless NAGE believes that the buyout program should allow as much worker choice as possible to take advantage of the program.

II. "THE FEDERAL WORKFORCE RESTRUCTURING ACT OF 1993"

The major features of the voluntary separation incentive program contained in H.R. 3218, the "Federal Workforce Restructuring Act of 1993" are as follows:

Timing—During a 3 month window designated by each agency head during FY94, Executive Branch agencies would allow the payment of a voluntary separation incentive to federal employees who retire or resign.

Payment—The payment would be \$25,000 or the amount the employee would be paid in severance pay. Severance pay is computed on the basis on one week's salary for each year of the first 10 years of service and 2 week's Salary for each year of service after 10 years. For employees over age 40, an age adjustment allowance is added to the basic allowance by computing 2.5 of the basic severance allowance for each full 3 months of age over age 40.

Discretion—The proposal gives considerable discretion to agency heads in the implementation of the program. The heads of each agency would designate the components of agency, occupations, particular locations, etc., where the separation incentives would be offered. In addition, the head of each agency would also have authority to delay separation for up to 2 years, where necessary for performance of agency mission. Employees who receive voluntary separation incentives would have to repay if reemployed in the Government within 2 years; however the repayment requirement could be waived for exceptional recruiting problems.

Other issues—Agencies would be encouraged to reduce employment by one position for each two separation incentives paid. In addition, the proposal requires agencies to pay an extra charge of 9 percent of an employee's final pay for each early retirement under CSRS to account for underfunding of early retirements. This charge would apply to all early retirements under the Civil Service Retirement System, not just those resulting from voluntary separation incentive programs.

III. NAGE RECOMMENDATIONS

While NAGE is generally very pleased at the steps being taken in this legislation, we would like to comment on a number of the issues which the proposal raises.

Timing—NAGE believes that the "window" for the buyouts might need to be longer than the 90 days currently in the legislation, perhaps as long as 180 days. As currently written, the 90 day clock continuously runs from the time when the agency head designates that the voluntary separation incentive begins. However, unless that announcement specifically includes which bureaus, divisions, or job categories are eligible for the buyout, federal employees will actually have much less than 90 days to decide their futures. Because sometimes information slowly trickles down as the details of buyouts are worked out, front line workers may spend weeks or longer in limbo before being told that their position is one eligible for a buyout.

While this occurs, workers lose valuable time to order their financial affairs and to make informed decisions on how the details of the buyout affected themselves and their families.

Exempt Positions and Organizations—The proposal allows the agency head considerable discretion in exempting positions or organizations critical to agency mission. While NAGE agrees that this is required, some flexibility should be accorded. For example, NAGE represents many patient care employees in the Veterans' administration. A decision to exempt these employees would hamstring the goals of the separation program. NAGE suggests that agencies make full use of priority placement lists and training programs to allow some employees in exempt positions who wish to leave the federal service to do so. For example, while nurses in the VA may be exempt from a buyout program and thus denied the opportunity of the separation incentive, provisions should be made to allow VA nurses to retire or resign if replacements could be found. For example, there might be nurses on priority placement lists from the Defense Department who could take the place of nurses who wish to leave federal service from the VA. Often the government would still save money because the higher-grade employees in the exempt positions would level to be replaced by priority placement list employees who are typically lower-grade on the pay scale.

Funding—While NAGE fully understands the financial situation of the government, we are concerned that funding the buyout program and the additional agency expense of funding the CSRS costs of buyouts and early retirements could jeopardize important agency functions and employee benefits. NAGE urges that a study be conducted during FY95 to determine the impact of this funding mechanism on agency mission and employee benefits.

IV. CONCLUSION

NAGE endorses the enactment of legislation which would provide voluntary separation incentives to federal employees in order to downsize the federal workforce. NAGE is grateful for the opportunity to testify on the "Federal Workforce Restructuring Act of 1993" and would be pleased to answer any questions.

Ms. NORTON. All of your testimony has been very helpful, and I do have some questions.

Some of what you advocate would add costs. One can understand the health-care costs. Mr. Sturdivant, though, the cost of your formula, do you have any idea what the cost of your formula would be? Does it raise appreciably?

Perhaps, if one looked at it more closely, it is not what it appears, but if you have a \$25,000 maximum, do you think that there would be an appreciable increase beyond that if we used your formula instead of the 25,000 maximum that is proposed in the bill?

Mr. STURDIVANT. I don't have those figures right here. I would think probably it could very well balance out because if you encourage higher-graded people to leave, then you are going to save those costs further down the line. But we can do some more work on that and try to extrapolate what those costs would be and whether or not the costs would be appreciably different than the 25,000.

You have to remember, if the 25,000 does not get higher-graded people to leave, then those costs continue anyway.

Ms. NORTON. Yes, that is true. That is certainly true. That is why I say I don't out of hand say that your proposal is more costly. I do say that if people are waiting to be RIF'd we need to keep them from being RIF'd. So I am not sure people should depend on that to get them a higher amount of severance, for example, but there are other costs, as you indicate.

Mr. STURDIVANT. Yes, there are.

Ms. NORTON. I am a little surprised to hear so many of you indicate that you think that employee organizations should be able to bargain on who is let go. I would think that it would put, especially

a union, in the terrible position of bargaining away some of its members in favor of this, number one.

Number two, my impression is that in the private sector—to take one of the more militant unions in the country—if the auto workers are to be laid off, the UAW doesn't sit down and bargain that away. It depends on the tools you have put in place, seniority and bumping, to do the job fairly.

And, third, I thought it was quintessentially management's obligation to understand who to hire, how many people it needs and does not need. So I don't understand how the union would find out except by asking management who it needs and what its workload is. I don't think you have that information. That is why I did not understand that proposal.

Mr. STURDIVANT. In the traditional workplace, you are correct. But what we are trying to move to under this proposal to reinvent government and to change how government does business is to bring the experience, the information and the knowledge of front-line workers to the policy-making table.

Now, one of the things that we have taken a very strong position on is that this reduction incentive should be utilized to flatten government and reduce the excessive layers of management. That is the direction of the National Performance Review. Those are the discussions we had with the administration.

Ms. NORTON. Wait a minute. Would you, then, bargain away which managers are supposed to go?

Mr. STURDIVANT. We would bargain and sit down at the table and discuss how the work is done—numbers, types and grades and positions of doing the work—and from those discussions you would then bootstrap to the point that you don't have enough managers. We are going to be there to make sure that this does not happen and end up with business as usual.

The understanding is this 252,000 reduction is going to be mostly managers because those are the folks that would be reduced under the National Performance Review, and we see having the National Partnership Councils in that process as ensuring that this will happen.

Ms. NORTON. Would some of the rest of you wish to respond as well? I wonder if you would be satisfied in having some input into the process. As an old labor law professor, I see all kinds of possible unfair labor practices come against the union as people are told that the buyout really ought to be in this division rather than that division and you are not ready to be bought out. I just see all kinds of complications.

Then when you mention managers, Mr. Sturdivant, which I think is absolutely appropriate, then I see people in another bargaining unit bargaining about jobs that are outside their jurisdiction, and I get more and more confused and think we may end up in legal trouble if we proceed without thinking such a proposal through very carefully.

Mr. STURDIVANT. Well, certainly, we are going to think those proposals through very carefully. But, as employees, we have two choices: either to sit there and watch it happen and have no say about it and experience detrimental impact on the employees that we represent—

Ms. NORTON. Let me propose a third alternative.

Mr. STURDIVANT [continuing]. Or come to the table and have some say about it in a way that our knowledge and our experience ultimately will result—because we are the ones who will be asked to do more work with less people.

Ms. NORTON. You are. And it seems to me that this Partnership Council is what saves this proposal. I cannot imagine that this reform could be accomplished without enthusiastic—and I use that word advisedly—support of workers, the employees themselves.

But what we are doing here may be reinventing unionism as well. And in the private sector, we have seen, for example, that the manufacturing unions have managed to keep the position and the distance they must have from the employer while, at the same time, managing in some exquisite ways to do work involvement and cooperation, including what amounts to reaping the benefits of higher productivity by payments in their checks that reflect their productivity. It is a real model.

So between no participation, which is the old hierarchical industrial revolution model, and bargaining, a word I use in the technical sense, which means you go to impasse, which means all the approaches, is there not some room for unions to have a role in these decisions that may not be classic bargaining with all of the procedures that attend to the bargaining process?

Mr. STURDIVANT. I don't see our role in this process as classic bargaining, going to impasse, and all of the other things that come out of the industrial labor relations process. But you have to remember that the underlying principle here is to provide more effective, more efficient, less costly government. And the administration has made the commitment that we have something of value to bring to that process.

So we will operate in this process on the basis of when we sit down to talk—and the administration has also indicated that agencies are going to have customer service requirements. We are going to be the ones who are looked to to meet those requirements. So we feel quite comfortable going to the table and sitting down and saying that you cannot cut. You cannot cut the claims representatives, but you will have to get rid of those middle-level managers two and three layers above the claims representatives because they don't add value to what we are doing to the taxpayers, and these are the folks who should be given the incentives to leave.

I feel quite comfortable in following that direction.

Ms. NORTON. I feel comfortable with what you have just said, because I do think that there are employees, for some of the issues of downsizing, who will know more than anybody else, and without their participation there may well be unintended consequences and issues and problems that might not have occurred. But, as you say, one may not have to do this with all the trappings of classical bargaining.

I'm sorry, Mr. Gordon, did you wish to say something?

Mr. GORDON. I just wanted to describe what Mr. Sturdivant was saying. My fear in this is not the involvement of unions. Unions can constructively be involved and make very progressive and constructive suggestions. What I am somewhat apprehensive about is

to what extent—and from some of the talk I hear—who is going to do what.

The involvement of employees is wonderful, but the involvement of employees to bypassing of unions can become very dangerous. And I am beginning to have a sense that that could occur, and I think unions will have to be very careful in this regard that they do not give up the statutory exclusive representation rights that the statute gives them.

Ms. NORTON. That is right. And in that regard, management will try to hold you to those statutory rights.

Mr. GORDON. Exactly.

Ms. NORTON. And that may become a problem. I expect some expansion of bargaining rights to come out of this process and certainly some expansion of consultation.

Mr. Roth, you were one of those who indicated bargaining was appropriate. I wonder what your response to these inquiries are.

Mr. ROTH. I think today that the Federal workforce has accepted we are going to downsize. Instead of fighting with it, I think we are learning to live with it. If we have to live with it, we think we should have a say in how it is done.

If it is bargaining, we can talk about the exact format, but the concern is that, as the problem is put on the table, we should be there at the very beginning to discuss it, try to work out the issues, say, did you realize this? This is something we found out by working on the shop floor.

I find in government the managers are not walking-around managers. They sit in their offices, rarely get out to talk to the troops. They rarely know what is going on and to have them sort of look at it becomes very scary.

In CRS, I think we are accepting the fact we will go through downsizing, and management has started an exercise of how to best deal with it. And, fortunately, because we have consultative management in our contract, they have come to the staff at the beginning. You never get as much as you would like, but at least there is this opportunity for bottom-up discussion and then feeding back down into the system. And I think management, by doing it, is learning they have good ideas.

So it may be informal bargaining, but really it is negotiation. You are throwing ideas back and forth and trying to figure out what is best for the agency. We don't want to go out of existence any more than management does.

Ms. NORTON. Remember, first of all, bear in mind we are talking about buyouts now, and that is one of the reasons what you are saying is appropriate. We are not talking about RIFs. And in case anybody didn't hear me, we are not talking about RIFs. We will do this with buyouts. Since we are talking about buyouts, we are really talking about voluntary action here.

Now, one of the reasons why I think your involvement is important is that we have heard stated here, as a blanket matter, without any notion of how it would be done, that there would be no coercion. Well, we know this, that workers, employees, tend to associate with people in their own units and managers associate with people in their own units.

We think that certainly would be important if only, frankly, to make sure that coercion doesn't occur, that the unions would be involved in, themselves, in this process. And I fervently believe that, particularly when we are talking about buyouts, when we do not have the normal adversarial situation that unions, quite apart from the legal framework involved, have a role to play here.

Remember, though, that the position that, as I take it most of you take, is that we are talking about buyouts largely to managers in the first place. And one of your roles, it seems to me, is to make sure people don't wipe out the ranks and not do what the National Performance Review said which was to look for what that review said is a ratio of manager to employee that is very hard to justify. It seems to me a role for you there is very important.

Let me say, Mr. Roth, that what you say about the Library of Congress, is itself very troublesome. I believe the Library of Congress is doing a deficit reduction downsizing and not an efficiency downsizing, and I think it is wrong on both counts.

First of all, if it were an efficiency downsizing it would be laughable because, obviously, first-come first-serve cannot be about efficiency by definition. But even if it is a deficit reduction downsizing, is it early retirement? I am not certain of exactly what it involves.

In any case, the problem with the need for some targeting, even in deficit reduction, seems to me is called for by the nature of the mission to make the money. And if you want to make the dollars, then it seems to me you want to give some guidance as to the level you are looking for.

For example, you would want to say, I am looking at the highest possible level I can find where there may be redundancy because I want to save the greatest amount of money because this is deficit reduction downsizing. And I don't see how they will do it by first-come first-serve.

And I do want to say for the record and to staff that I would like a formal inquiry made of the Library Congress this very day, as this is supposed to begin, I believe, tomorrow.

So that we can get an explanation and perhaps do something that might encourage the Library of Congress to be more rational than appears to be the case in what they are about to do. It certainly isn't a model for the National Performance Review.

Have you or your organizations at any level at this point any understanding of your roles in the proposed partnership council and the role that that body is proposed to play in this downsizing effort? Are there any details that you have on that at this time?

Mr. STURDIVANT. During the deliberations that we had with the Administration on the issuance of the executive order and the establishment of the National Partnership Council, I don't recall specifically talking about the—well, I don't recall specifically talking about the downsizing and the buyouts. We did talk about the fact that in order to meet some of the management reductions that we were proposing or that we had put on the table basically to flatten the government that we felt that in order to ease it a little bit—in other words, a lot of the managers are as much victims of the system as everyone is and we wanted to have a safety net to ease these middle level managers who were determined not to be needed in the workplace out of the Federal Government. We did not talk

about what role the National Partnership Council and the attendant partnership councils in other agencies will play in determining these downsizings.

I would suggest that if you would look at the executive orders, that broadens the bargaining scope for unions bearing in mind that any proposal that we put on the table has to have as its genesis moving to make the enterprise more effective and more efficient, then the issue of where these buyouts and where these reductions are targeted would be a fair subject for discussions and certainly, I am not speaking for all my colleagues, but certainly I think we would probably want to raise that as an issue once the National Partnership Council is in progress.

Mr. ROTH. I agree. We would like to have the same thing apply to the Executive Branch but we don't have the authority. You can inform the Librarian of Congress that you would like to see them follow it.

Ms. NORTON. What your members are telling you about their willingness to leave government on the basis of the 25,000 maximum.

Ms. SUSAN SHAW. We have received numerous phone calls from members in the last several weeks both anticipating the introduction of this legislation and asking questions about it now that it has been introduced. When I have asked people whether they are—I explain its provisions—when I ask them if they are going to take it—No one has given me a definite yes. They are curious at this point and a number of them have raised questions about the health coverage. It is of concern and we would particularly like to see that addressed.

Ms. NORTON. Do you think there are significant numbers of people that would stay because of the health coverage issue?

Ms. SUSAN SHAW. I don't think that necessarily but I think for people who are wavering, are eligible or close to being eligible for retirement and who are interested in creating a vacancy that this would spur those individuals to definitely decide to take it.

Mr. ROTH. We have approximately 150 some eligible either for early out or for early retirement. The figures are somewhere between 14 and 18 people would take that. A lot of these people are already eligible for retirement but have been waiting for the extra money to come forward.

In dealing with other parts of the library, they can't wait to get it and they want to get out. There was a special announcement issued this morning on how you are supposed to line up, not stay in the library overnight if you don't have special access because they expect a long line of people to get through the door, get incentives and get early out.

Ms. NORTON. Do you think there has been a buildup and backlog of people who have left, that we might get a good group of people taking advantage of this and coming close to making the goals that have been set and numbers?

Mr. STURDIVANT. I think that the attrition rate has slowed for two reasons. One is because of the state of the economy, frankly, and the other is that people who are not in DOD—I got flack from not expanding the buyouts and the early out government-wide when we were trying to focus on people who were losing their jobs

in DOD. I can't give you a count. Maybe some folks who talk to a lot of people—you hear, what are you doing about the buyouts? That is a big issue in this town. I don't have any empirical data.

People call me about early outs and buyouts all the time. The individuals or the leadership that I deal with seem to be more concerned with the fact that the reduction in 252,000 Federal employees is going to cause reductions in force. The thrust seems to be you need to do everything you can so we don't have RIFs. That is where I am getting a lot of input.

Ms. NORTON. That is interesting. One of the reasons, frankly, that I want to do my best, at least from where I sit, to take that off the table, is I think the Administration will hurt itself. First of all, they have been at great pains to send a message—they don't talk about RIFs, they talk about early buyouts. We know they mean it. We know they are trying. I asked the Vice President himself at a DSG executive committee meeting whether he ruled out RIFs. He would not say that he ruled out RIFs and he did put the greatest possible emphasis here, if they read the literature, if they look at the experience they will know that even without meaning to sabotage reform, employees will not help you reform them out of a job, and you cannot expect them to do so. If you are straight with them upfront that we have a goal, that we are going to try to meet the goal over time, if we can't meet it perhaps stretching the time out, but not to firing you, you will get pulling as a team.

Nobody is going to be on a team to work them out of a job. I am trying to help—not only to save jobs of people whom I represent, God knows I am trying to do that, but I am also trying to help the Administration to help itself. It needs to send a signal this is not about losing your job and the best evidence of it is that we have gone to the Congress first thing to get this authority.

They ought to use that and disclaim layoffs or somewhere down the line when you begin to count how many people have taken buyouts it will ripple through the agencies that they are not going to come close to X or Y figure and you will begin to see reform collapse.

How many times do we have to see that happen to know what the private sector has learned, to tell people we are going to downsize, we have found a way to do it, help us increase productivity.

We have seen it work over and over again, and I have never seen it work where an employer says we are going to downsize and we need your help and we are going to use whatever incentives we can and if we don't meet them those of you who are helping us to improve our productivity will be out on the street.

Does everybody hear me? That ain't the way to do it. I am going to do all I can to see that it is not done that way.

Mr. STURDIVANT. We really thank you for your support. The three unions had extensive long-term discussions with the Administration as we were trying to craft this labor-management partnership, including two meetings with the Vice President himself face to face in the White House.

We told them that up front, that we want to change the way we do business; we want to be part of the solution, not part of the problem, but we certainly are not going to change the way you do

business if it means the people that we represent are going to be out on the streets.

One of the things we continue to hammer with them on is you can't ask workers to be more productive, to do the types of things that I need to do to change the way government does business without some measure of job security. That is the reason that we talked about and continue to talk about reducing the number of managers.

You asked about where that number 252,000 came from. Nobody seems to know. We talked to—I think it came from a spin doctor at the White House who is more interested in meeting some of the commitments that the Administration had made on deficit reduction and the problems that they had in getting budget reconciliation.

But, once again, we told them up front in no uncertain terms if you start putting numbers on these proposals, a lot of them are really good and will change the way government does business, but if you start putting financial savings and numbers of employees on these things what will happen is that you will not have any rational coherent discussion about the merits of your proposals to change how government does business.

Any time you put those numbers out remember George Bush's 15 million new jobs. They are going to come back to haunt them. We advised them several times about using that strategy and that tactic. I guess they felt they needed to do that in order to get the necessary headlines or whatever they needed beyond the Beltway, and it has made it very difficult for us to move our organizations and our leadership in the direction we think government needs to go in order to do business. I think it was some spin doctor.

Ms. NORTON. I have no problem with setting goals. I understand your point.

Ms. SUSAN SHAW. I was just going to add that we heard OPM, I believe, earlier today talking about how 60,000 to 100,000 people might take these early outs. If we are really looking at whether this 250,000 employee figure is accurate, there is a big gap—if we are not talking about RIFs, what are we talking about?

Ms. NORTON. Let me say that one distinction that must be borne in mind is the difference between downsizing for deficit reduction and downsizing for reform. Even in the testimony we heard this morning from Ms. Green, there seemed to be some confusion there in talking, for example, about a 90-day window early in the year so as to make the savings.

That is fine with me. It makes sense. But it does tend to put the emphasis on making the savings, and we have done that and we did what they proposed to do. That is why in order to make the case for layoffs they have to come back with something other than deficit reduction and other than we did not make a number that looks very much like a number for savings for its own sake or savings for the deficit's sake. In other words, downsizing for reform must not become a pretext for downsizing for deficit reduction. If the Administration feels it must have more from the employee package for deficit reduction, it must come to this committee forthright and say we need it and then we will consider it, but we will

not allow it to be done in camera and as a pretext for something it is not.

Mr. STURDIVANT. Once again, this is something that we have told the Administration is if you are talking about efficiency and if you are talking about effectiveness in a lot of instances, and I know they don't want to hear this, you got to add people. If you have folks collecting revenue, you don't want to reduce those individuals; you need more people collecting revenue such as the Social Security Administration where they are talking about the 800 number will be answered on the second ring. My response is you better get some people on those phones or you better start thinking about voice mail or additional technology, because we can't do it now. So in a lot of instances if you want to do things more efficiently and more effectively, a lot of times you have to add people and there doesn't seem to be that direction in the Administration, because there is a focus on just cutting.

Ms. NORTON. Chairman McCloskey.

Mr. MCCLOSKEY. Thank you very much, Madam Chair.

John, you weren't here when I was speaking earlier. I enjoyed your statement last night. One of the main items of interest is mandatory placement for all displaced employees. I brought that up to Ms. Green this morning. We could have tens of thousands of employees so interested. Is there a way to do that and make it mandatory? How do you see that being faced, and anyone else?

Mr. STURDIVANT. You mean placement for—

Mr. MCCLOSKEY. Interagency transfers, in effect.

Mr. STURDIVANT. Of course. Let me just give you a situation we have. Like we have Charleston that is shutting down and we have individuals I think in supply and somewhere else. GSA is hiring supply people, but rather than giving an opportunity for the individuals who are going to lose their jobs at Charleston, they are hiring from outside.

I would think you would need a lot of technology and I would like to see it modeled along the lines of the DOD stopper list, where basically you use computer technology. You have people register. You have them given an opportunity to—we see that—we feel strongly about that because of the fact if you do not have a coherent long-term policy to reduce the Federal work force and still take care of people who don't want to be reduced, then it is not going to work, and we think that is a piece of it that could help it work.

Mr. ROTH. I agree. I think technology is your answer to your problem. Why can't you match skills of people and when a job comes up, it comes up on the computer and you try to match the two?

Mr. MCCLOSKEY. I am not being picky; I want to get clear. That could be an administratively improved and defined but still to some degree discretionary system. If you say mandatory, would that not almost imply a right to a job in another agency?

Mr. ROTH. Opportunity of first refusal. They should at least go to the person being put out first and look at them before you search elsewhere.

Mr. MCCLOSKEY. That would be mandatory.

Mr. GORDON. Because they are expensive, because you may have very involuntary transfers which involve transfer costs, et cetera. You would have to make budgetary provisions for that, too.

Ms. SUSAN SHAW. I think what we have now is a discretionary system that doesn't seem to be working. I think you probably have to go towards a mandatory system to make this work.

Mr. MCCLOSKEY. Is this program only going to have impact as far as likely increases in contracting out? Could it be used as a foot in the door, a Trojan horse or subterfuge for greater contracting out? We have the savings—

Mr. STURDIVANT. That argument was made.

Mr. MCCLOSKEY. We are still getting it done with other money and private contracting personnel.

Mr. STURDIVANT. That argument was made that certain parts of this tracked Senator Roth's bill or it looks like it in places. That argument was made. I would suggest, though, that under the NPR recommendations there will be more of an opportunity for Federal employees to capture work that has been contracted out because we will be moving—if we are talking about effectiveness and efficiency and costs, then we certainly are going to argue that we are talking about not just personnel costs inside the government or not just effectiveness and efficiency inside the government but effectiveness and efficiency in those contractors who are doing work for the government.

Under the current rules, once work leaves you can't get it back. It is very difficult to get it back because there is no opportunity to recompile for the work. We have got a situation in Whitby Island, Washington, where our members tell us that the work was gone, they have been tracking the work and that they can do it cheaper but that the Navy won't give them an opportunity to compete for it.

Under the new rules proposed by the National Performance Review, we will have an opportunity to not only compete for the work but an opportunity to sit down with management and talk about the importance of getting rid of the overhead, getting the additional training that we need, getting the up-to-date technology that we need, and then I would submit to you that on 90-some percent of those competitions Federal employees will win if we have a level playing field.

Mr. GORDON. Now you have a situation where this contracting out situation, by circuit court decree you cannot even discuss. Under the approach outlined here, they get to the bargaining table where you cannot get there now. So we are hopeful that something can happen with contracting out.

Mr. MCCLOSKEY. Do you have further specific ideas and suggestions as to implementation of quality training opportunities? Frankly, I think the statement of the policy that I heard today is just quite general. Are there any concerns as to budgetary impact, planning ahead of time, et cetera, that need to be further addressed, actual training costs, et cetera, and numbers of people?

Mr. STURDIVANT. I think that the recommendations that they are making to change, to give more flexibility to how they give training and with the opportunity for employees to have input into who gets training and for what, I think will enhance the training dollar that

is now spent. I would submit to you that the training dollar as it is spent now is not spent very efficiently and that with more flexibility in the law and with the participation of employees in the process I believe that we can spend that training dollar more efficiently.

Mr. ROTH. I think you do need to do a lot of planning for this. In my testimony I point out recommending not looking at training plans but staffing plans, do long run staffing plans and look at the staff you have there and who can be trained. If you just say do it, it never happens and doesn't happen very well.

Ms. SUSAN SHAW. We reached an agreement with IRS about a new training program that we hope to have in place by the end of next year where they will train employees with somewhere between one to three year commitments to do ongoing training, re-training, skills upgrading, making individuals eligible for career paths such as why are we not training secretaries, when we no longer need as many secretaries, to become paralegals. Let's give them the training that they need.

The IRS has committed to attempt to hold on to both, to give 2 percent of its salary accounts for training and to set that aside and to make every attempt to hold on to it. Every time there is a budget crunch, one of the first things to go is training and travel. We need to address that.

Mr. ROTH. Training doesn't have to be external. You can have qualified staff who can do the training. It is not a budgetary cost, but it is a direct cost.

Mr. MCCLOSKEY. Thank you.

Ms. NORTON. Thank you. In your program of mandatory offers of other positions it sounds to me like minimally what one would want to do, but in effect you are talking about adapting a program that has been used in an agency where layoffs were inevitable. That is to say—one wonders how adaptable that is. It may be that we will get to some whole units that don't fit any longer and this becomes adaptable, but in DOD they are dealing with an agency that is being shrunk right under your nose not because somebody is trying to make it more efficient but because you don't need them to do the things they were doing, so that they look for jobs elsewhere and seem to have done a very good job at it.

Here the testimony of Ms. Green seemed to indicate that there weren't going to be a lot of openings in the government, that people were not going to be able if they were going to try to meet these targets to get one replacement for every two who leaves. Have you thought about where in a situation where you are trying not to do layoffs a layoff alternative such as mandatory placement fits? We are asking people to be bought out now. How would you do it without in fact threatening layoffs?

Mr. ROTH. Buyouts are done hopefully to prevent layoffs. I am not as optimistic as you are that there won't be layoffs. If buyouts won't work, what next? You only have so much money and it is going to shrink over the years. The funding for locality raises, we are happy to get it. Having the agency swallow it, they can only do it so many times before they burp.

Ms. NORTON. I understand that with 152,000. When we pile on another 100,000, we get into something that may break the camel's

back. For the 152,000, we have taken into account how that will be reached. That has been done down to the last nickel and there should not be layoffs as a result of that.

Mr. ROTH. In the case of the Library, they are offering early outs because they figure with what Congress told them in the appropriations bill they have to reduce 4 percent the next two years. They got to get rid of 399 in that two year period. The reason they are offering this is because of that mandate. It has nothing to do with becoming more efficient. I think a lot of agencies are facing that. It is budgetary driven right now. Because the 4 percent is an initiative that came out of Congress they went along with it to cut down the size of government.

Ms. NORTON. That assumes layoffs would occur if you don't do it because it is deficit reduction. That is not what the buyout proposal is theoretically about. I am trying to get people to voluntarily leave the government altogether. Why are you doing mandatory placement at the same time; because they are not being RIFed—

Mr. ROTH. There are areas of government that do need additional staff. It is not a static or homogeneous organization.

Ms. NORTON. We don't right now. I take it with whatever RIFs the government has been doing for all these years, it does not have an outplacement within its own work force, a system for placing people across agency lines within its own work force. If you get a RIF notice, there is no place that pushes into the computer and then says but there is an opening. That is outrageous.

Mr. STURDIVANT. It is a very amorphous system. To my knowledge, it is not something that utilizes the most current technology in matching people with skills across government-wide.

Ms. NORTON. Of course DOD is doing that.

Mr. STURDIVANT. DOD basically does it because they have what is known as the stopper list. We worked with DOD to get them to open up, even to open up the stopper list a little bit and not make it so restrictive. To use a phrase and some discussions I had with them, I said if DOD can shoot a missile 6,000 miles and land it in a space of a football field, you ought to be able to come up with a system where you can match jobs with people. Their response was you have a point there. They had been doing it before but we kind of encouraged them to do better.

I have to say DOD has worked closely with us and we have been able to get information back from the field. People who had questions, people who didn't feel that the program was being appraised right, they worked with them and they have done a very good job on it.

We can learn a lot and OPM can learn a lot from DOD. I suggest that is an area that you might want to keep a very close eye on is to make sure that the people in OPM are utilizing the expertise and experience and skills that have been developed by going through this process in DOD so as to keep them from making some obvious mistakes.

Mr. SULLIVAN. Prior to last year's DOD authorization bill placement was all done agency by agency. The DOD stopper list was restricted to other DOD facilities. What changed in the fiscal year 1993 DOD authorization bill and was one of the things the unions pushed in previous hearings before the committee was to create a

government-wide placement list, so for the first time there was a government-wide placement list recognizing the downsizing that was going to occur in DOD.

The issue goes back to training. We are not advocating mandatory placement from one job in one agency to the same job in another agency. What this is about is training people for new skills. That is really the key to making downsizing work. Mandatory placement by itself isn't going to work because unemployment, as you know, is changing. Traditionally, unemployment was—there was a downturn in the industry in which you worked, you were laid off six months and you were hired back at the same job when the business cycle turned back up. Through greater technology, now jobs are eliminated.

Ms. NORTON. As I understand what has been said here this afternoon, the NPR report does not include a mandatory government-wide placement system—we are talking about 12-and-a-half million employees who occupy virtually every kind of job found in the private sector. If all of them went away just going across agency lines, most people if they waited long enough could find a comparable job somewhere within this huge workplace, the largest probably in the world; certainly one of them.

Is there anything in the report that mandates what DOD has at large for the entire Federal workplace?

Mr. STURDIVANT. You got to remember that there are more reports coming. Basically, what we have seen is the summary of the recommendations, and there are various other what they call systems reports, I guess, and agency reports. We have reviewed extensively what they call the human resources, which deals with personnel stuff. I don't recall seeing anything in there along those lines. I don't know what might be in some of the other agency recommendations. I don't know—I do remember reviewing the Department of Labor reinvention reports and there are some pieces in there to improve the job search and placement out of the Department of Labor, but I would just hesitate to say that there isn't anything there, because they are still working on trying to get those reports out.

Ms. SUSAN SHAW. One thing that is there that could be interpreted as a step in this direction is the need to, the NPR does discuss the need to cross train the Federal work force, that you have got to be trained not just in the narrow job description you presently occupy but you need to be trained in what your agency's mission is. This can be helpful when we are talking about taking an employee out of one job and placing them in another but making them qualified—

Ms. NORTON. I agree. Cross training is state-of-the-art understanding of how the new work force is going to operate. If you cross train and then RIF, I am not sure that the government has done anything more than incur the expense of the private sector to where that person may go. If you didn't train another person, if you didn't set up the training program, if you have this huge workplace and don't have a central place where somebody can find out, even if he is not being RIFed, that there is another job that he might fit, then there is waste in that lack of knowledge throughout the workplace.

I believe it is a large enough issue that it should have been in the reinventing government report because the notion of simply cross training people has been a state-of-the-art for so long now it is not a new idea, certainly not as new an idea as many of the ideas of reinventing government is. Most workplaces are not large enough so that you can do that much with placing people different places, and yet your best companies do it and often unions require that you do it so that people know where jobs are and job posting is required. In fact, for affirmative action purposes we often require job posting. Knowledge alone can do part of the job here. Of course, training is absolutely essential in this day and age but again, for what end? If you don't have a state-of-the-art communication system it may just lie fallow.

Mr. STURDIVANT. In an effort to try to help them out a bit, if you recall in the NPR report there is a recommendation for the government to make it easier for people to find out how to get jobs in the government. As you know, it is very difficult for people to find out where to apply, to know about the registers. So I would—there is a possibility, and I am not speaking for them, I am just trying to help them out a bit—there is a possibility that they might be able to get at a piece of that as they reinvent the process of applying for a Federal job.

It seems to me that whatever technology that you either buy or obtain that will make it more citizen-friendly to find out all the information they need to know about Federal jobs, how to apply for one and how to get one, could be applied to how to deal with people who are currently in the Federal Government and who would need a job.

Ms. NORTON. I have one more question and that is about the 90-day period. Ms. Shaw, I think, suggested that it was too short, and as one problem suggested that the agency might pay the bulk of the salary and therefore have less incentive. But when the person is gone the person is gone for years, not until the end of that fiscal year, and the savings—of course this plan looks a year out.

Ms. Green testifies that she wants to get the movement. Obviously she has some monetary concerns as well. Do you all think that a 90-day period is too short and if you go until September 30, 1994, Ms. Shaw, won't you just have people putting it off and not get the efficient moving out and downsizing and figuring out how you are going to reconfigure the government? Can't you say make up your mind, here it is, take it and run?

Ms. SUSAN SHAW. We weren't suggesting that the 90-day period is necessarily too short but rather that by the time Congress approves this and agencies get their programs running, we are likely to be looking at the first of December when an agency can say here are the divisions we want to offer this in, here are the people we think should be eligible.

We were suggesting that because an agency will have already expended quite a bit of that employee's salary by the time they get off the payroll it may not be as efficient for them to do it this fiscal year but at the beginning of the next fiscal year. They have accounted in their budget for that employee being on the payroll, but rather than paying any portion of that employee's salary they will be able to get them off earlier, perhaps making payouts available

to a greater number of employees in agencies that need to downsize considerably.

If they are going to have to pay this out of their salary and expense accounts, some agencies may not be able to afford—agencies that are employee intensive may not be able to afford to make early outs available to all of their people. If you allow them to do it this fiscal year and the beginning of the next fiscal year as well, it is something that could be looked at in terms of giving an agency a little more flexibility, especially those who may have budget problems.

Ms. NORTON. I certainly can see what you mean in terms of agency costs. I want to thank each and every one of you for testimony that is absolutely essential and extremely helpful to our consideration of these issues. Thank you very much.

Ms. NORTON. I want to call our last two witnesses, Mr. Bruce Moyer and Mr. G. Jerry Shaw. Mr. Bruce Moyer, Executive Director of the Federal Managers Association.

Mr. MOYER. Thank you very much, Madam Chair. With your indulgence, I would like to defer to my comrade, Mr. Shaw, inasmuch as he has a 4 o'clock plane to catch and needs to get back to the office. I will, with your permission, follow Jerry.

Ms. NORTON. Absolutely.

STATEMENTS OF BRUCE MOYER, EXECUTIVE DIRECTOR, FEDERAL MANAGERS ASSOCIATION, AND G. JERRY SHAW, GENERAL COUNSEL, SENIOR EXECUTIVE ASSOCIATION

Mr. JERRY SHAW. Thank you for holding these hearings. I have a number of points in our testimony and I will let your staff read them. I will confine my remarks to one point. We have surveyed as best we could a number of SES, GS-14's and 15's and asked them if they would accept the buyouts. Most of them would not. The amount of money is not sufficient to incentivize them because if a RIF came about they will be able to fall back and get saved pay, et cetera.

The one thing that would incentivize them, however, is an elimination of the 2 percent per year reduction. We recognize that is too expensive for those under age 55. So looking through the FPM and through the law we have come up with an alternative that we hope you will seriously consider.

Under current law, Federal employees can make voluntary contributions to the civil service retirement system. Those contributions will yield for each \$100 deposited \$7 currently in additional annuity and the employee remains free to draw out the contribution with interest if the employee does so prior to receiving an annuity. We request that the agencies, rather than paying the employee an amount of money up to \$25,000, be allowed to deposit that money in the employees' civil service retirement fund and/or their FERS Thrift retirement account. If the employee does not have a choice of taking the cash or the money in the retirement account, then there should be no tax liability. We have consulted with IRS on this. At the time the money is placed in the fund by the agency, the employee (as is currently allowed under the voluntary contribution plan) would be allowed to withdraw that money any time he or she chooses. Therefore, if the employee

chooses at the time that he or she leaves government to take the cash, they could withdraw the cash but they would pay the taxes due at that time. That is the way the law currently works for the voluntary contribution plan.

Finally, there would be no COLA payment on the additional annuity that the employee would receive from their cash contribution, the same as with the voluntary retirement contribution under 5 U.S.C. 8343, and consequently there would be no additional cost to the government.

There would be no additional cost to the government. The agency would be paying the same amount, they would just pay it into the retirement fund. The effect is it would be a nontaxable transaction to the employee at that time and would reduce the amount of annuity reduction the employee would take under an early retirement, rather than making their own voluntary contribution.

It has a number of benefits. We see no downside to it and it gives the employees in the higher levels of government much more incentive to accept the the incentive program and leave government. Thank you.

Ms. NORTON. Thank you very much, Mr. Shaw.

[The prepared statement of Mr. Jerry Shaw follows:]

PREPARED STATEMENT OF G. JERRY SHAW, GENERAL COUNSEL, SENIOR EXECUTIVE ASSOCIATION

Good morning Chairwoman Norton and Chairman McCloskey. My name is Jerry Shaw. I am the General Counsel to the Senior Executives Association. SEA appreciates the opportunity to appear and testify before you today on the Federal Workforce Restructuring Act of 1993. We commend both of your leadership on this and other matters of concern to federal employees. We also wish to commend the hard work Congressman Hoyer, who has worked so hard with you to ensure fair treatment for all in the federal community.

We have examined the provisions of the Act, and have some suggestions. Some in Congress and the public question the necessity for buy out provisions in order to downsize the government. They see this proposal as a new and expensive benefit, and believe that the best way to proceed is to merely conduct reductions in force in order to fire the people who are excess.

As you and I know, it is not as easy as all that. Agencies estimate that to run a reduction in force under law, and remove employees who are excess, costs on average \$25,000 per employee. Thus, the payment of a voluntary separation incentive makes good economic sense. For essentially no cost, much disruption to our government agencies and the citizens they serve is avoided.

In addition, downsizing in the private sector is, in fact, much more expensive than in the public sector. Analysis of recent studies by Charles Brown, Professor, University of Michigan, which he prepared in September of 1993, shows that in the private sector between the years of 1982 and 1992 of the substantial number of special early retirement offers studied, employees accepted approximately 50% and rejected approximately 50%. On average, the mean offer which was accepted by employees receiving cash buy out offers was a separation incentive of \$38,000 in cash and \$6,600 in additional pension benefits. Of the approximately 50% who rejected the offers (in some cases there were multiple offers), the mean offer rejected by those receiving cash buy out offers was \$29,000 cash and a \$3,900 additional pension benefit. The Government is offering to its employees a maximum of \$25,000 in a voluntary separation incentive, and no additional retirement incentive. We understand that the average incentive paid out to Department of Defense employees under their program has been less than \$20,000.

Professor Brown's report makes some very interesting points. In the private sector, those who accept the incentive offers are (a) more likely to be married than those who reject them; (b) twice as likely to report that a health condition limits their work; (c) twice as likely to report that they would accept a hypothetical alternative job; and (d) finally, those who accept the offers are more likely to be risk tolerant individuals. He reports that half or more of those who accepted the incentive

offers returned to work in other companies. However, many had to endure reduced work weeks and pay.

Thus, in the private sector the mean was a higher cash payment than that offered by the government, and an increased pension benefit where the government has offered none. If government employees are similar to private sector employees, and we believe they are, then approximately half of those accepting the offer will be seeking active full time work. We, therefore, urge that this bill require a job outplacement program be established in each agency for those who accept the offer, but are seeking other employment, so that they do not wind up with a reduction in working hours and compensation because of having left their current positions. We also urge that there be an educational effort to assist employees with financial planning. Many federal employees are unskilled in such matters, and classes on financial planning, budgeting, etc., are an absolutely essential part of helping these employees transition. Finally, we do not believe that a 90-day window is sufficient time for employees to make a rational decision. If they are provided with the financial planning and, thus, the ability to make valid judgments on what is best for their families, they should also be given a reasonable time to explore private sector job opportunities if they plan to continue in the workforce. A 90-day time period is not sufficient to evaluate the offers, get financial advice, and seek other employment if desired. We suggest that the agencies provide up to a 6-month window of opportunity for employees rather than 90 days.

We would like to propose an alternative to the cash buy out that we think would assist the Administration and Congress in accomplishing the objective of rightsizing the government, especially in the mid and senior level grades. Our informal polling of GS-14's, 15's and SESers leads us to conclude that the cash buy out offer will not motivate many long service employees into either taking early or optional retirement, assuming they are eligible. Of course, those who are not eligible would be receiving severance pay, and thus, no buy out dollars. On the other hand, the one benefit that these employees nearly uniformly indicated would incentivize their early retirement was elimination of the 2% reduction in annuity for each year under age 55.

To eliminate the 2% reduction would be more costly than the cash buy out, and would require a change in the retirement law, rather than the use of the agency's discretionary funds. Because of those objections, we propose an alternative which would have no increased net costs to the agencies, but would be more beneficial to the employees and have the effect of eliminating at least part of the annuity reduction.

Specifically, we propose that the buy out amount be paid by the agency into the employee's CSRS retirement account or their FERS Thrift account. Currently, employees under CSRS are authorized to make voluntary contributions to the retirement fund, and to receive in return for those contributions either an extra annuity amount, or a return of the contribution at some point prior to retirement with interest based on the average yield of new investments purchased by the retirement fund during the previous fiscal year. (See 5 U.S.C. §8343, and FPM Supplement 830-1, July 27, 1990.) If this bill provided that the agency make the deposit to the CSRS or FERS Thrift account rather than to the employee, it would not be immediately taxable to the employee, but would be taxable when withdrawn or when taken as an addition of their annuity. As with the voluntary contribution amount, there should be no annual COLA adjustment to the additional annuity amount. (See FPM Supplement 830-1, chapter 31, part 31, part 31A3, subparagraph B.2.) The effect of this would be for an employee at age 52 to have eliminated a substantial amount of the 2% reduction in their annuity that they would take for early retirement. Younger employees would still have a substantial reduction, but less than the amount of reduction that they would take under normal circumstances. In addition, the employee should be allowed to withdraw the agencies additional contribution (just as they can voluntary contributions)—with interest earned at any time prior to receiving an annuity. The amount of the contribution and interest received would then be fully taxable to the employee at that time.

We believe that this would be a beneficial option for many employees, and would have the effect of encouraging many more to consider accepting a voluntary separation incentive if presented in this form.

We note that since the agencies will be making a contribution of 9% of employees payroll under this bill to the Civil Service Retirement Fund, then it should not be a problem to add the voluntary separation incentive to that 9% for deposit to the employees' account.

We commend the Administration on their proposals to amend the training act and eliminate other training restrictions. We wholeheartedly support the proposed changes.

Thank you for the opportunity to testify at this joint hearing. I would be happy to answer any questions you might have.

Ms. NORTON. I hope I did not juxtapose your respective organizations. I believe I may have. You are General Counsel of the Senior Executive Association.

Mr. JERRY SHAW. Yes, ma'am.

Ms. NORTON. Your proposal is very interesting, it may even be a pay-as-you-go problem not taxable.

Mr. JERRY SHAW. OMB told us this should not compromise a pay-go problem. The reason is because it is a payment by the agency of exactly the same amount. The only issue is it goes into one fund versus the other.

Ms. NORTON. I don't see that it adds to the deficit.

Mr. Moyer, did you want to speak now and let Mr. Shaw go or—

Mr. JERRY SHAW. I have 10 minutes.

Mr. MOYER. I have only three comments to make in the interest of time and would ask that our statement be introduced into the record.

The first point, Madam Chair, is to certainly commend and thank you for your wide range of serious attention to this issue. Certainly the length of this hearing today demonstrates your earnest commitment to looking at this issue in a rational and intelligent way to explore every option possible to assure that the government does this downsizing exercise right and does it right the first time.

In that regard, we strongly encourage you and the committee to proceed cautiously in this area, to not be compelled by a near date with regard to markup but to use the time, whatever it requires in the next several weeks, to work with the organizations that have testified today, to work with OPM, and to look more closely at the DOD experience to assure that the legislation that is ultimately considered and hopefully enacted by the Congress and the President represents the best approach possible.

Secondly, with regard to the DOD experience, as our testimony points out, we would strongly urge you to take closer scrutiny as to what extent the—certainly the compelling success of the DOD program actually transfers as an applicable model to the rest of the government, because there are at least three distinctions between what has occurred in the DOD program over the past year and the rest of government.

First is that the buyouts have not been aimed at nearly as high a target population of managers and supervisors as we would expect in the government-wide program. Secondly, what has strongly influenced the success of the DOD VSIPs has been their use at defense facilities where the prospect of RIFs were abundantly clear, where we faced significant work load reductions or the threat of closure or even the identification of closure.

Thirdly, geographic location, in the sense that many DOD employees who took the VSIP have been located at military bases in nonmetropolitan areas where the cost of living is generally lower than in major cities with large Federal employee populations. At such locations we would suggest \$25,000 may have far greater appeal than in metropolitan areas.

That leads me to the final point; that is to offer several options, just as the Senior Executive Association has, that the subcommittee take into consideration beyond the scope of what this legislation has suggested. First, that the VSIP should be the greater of the severance pay entitlement or \$25,000, because we do not think that the package as currently proposed is going to propel the type of numbers that OPM has projected and certainly there is great range between 60,000 and 100,000 and far greater margin between 100,000 and 252,000.

Second, as the Senior Executive Association and Jerry just pointed out, the 2 percent annuity penalty represents the greater bar to attracting employees to retire early, and if there can be a means found and through further scrutiny of what the cost assumptions are to relieve that 2 percent in such a way as to avert pay-go—for example, if we are talking about the government's contribution of 9 percent in this legislation into the—the CSRS trust fund, we are then opening the door to the consideration of what greater amount would be required for certain categories of employees that may ultimately be much more cost efficient for the government to let go given what their salary levels are.

Third, along the lines of what have already been proposed, to look at the possibility of making the VSIP, in order to be more attractive, tax-exempt not only with regard to a rollover but also if the recipient uses the funds in two other respects, one to create a new business that actually produces jobs for this economy or the employee uses that VSIP money in order to procure retraining or continuing education that will help that employee to become cross skilled or a more productive contributor to the economy and continue to remain employed, whether it be outside the government or in some other pursuit.

So that represents I think the predominant views that are represented in our testimony and we thank you very much for the opportunity to be with you today.

[The prepared statement of Mr. Moyer follows:]

PREPARED STATEMENT OF BRUCE MOYER, EXECUTIVE DIRECTOR, FEDERAL MANAGERS ASSOCIATION

Chairman McCloskey, Chairwoman Norton and Members of the Subcommittees: Thank you for the opportunity to appear before you this morning to offer testimony on HR 3218, the Federal Workforce Restructuring Act of 1993. The Federal Managers Association is the largest Federal professional management association, representing the interests of over 200,000 Federal managers and supervisors throughout the Federal Government. We have a strong interest in this legislation because of its purpose and intended effect.

The goal of the Federal Workforce Restructuring Act is clear: to reduce the size of the Federal workforce through the use of voluntary separation incentive payments that would encourage Federal employees to resign or retire from the service. Under the legislation, the size of the incentive payment would be the lesser of \$25,000 or the employee's severance pay entitlement. The decision as to which employees will be offered the separation incentives will be determined by each agency, according to its need to downsize in specific occupations, grade levels, parts of agencies, or geographic locations.

The Clinton Administration should be commended for its desire to use separation initiatives as an effective tool to downsize the Federal ranks. As you know, when faced with a similar need to reduce the size of its workforce in 1992, the Department of Defense did not originally believe that separation incentives would be necessary. DoD believed that it could meet its reduced workforce targets through attrition alone. However, thanks to the efforts of this panel and others, a buyout pro-

gram for DoD employees was enacted that has secured voluntary retirements and resignations by more than 30,000 DoD employees during FY 1993.

FMA believed then, and it believes now, that voluntary separation incentives are integral to the government's rightsizing strategy. Voluntary attrition rates among Federal employees are the lowest they have been in years, due to the economic climate. Without such incentives, reductions-in-force and layoffs will be inevitable. Such events would be highly disruptive of Federal operations, demoralizing to morale, and counter-productive in workforce diversity. Moreover, RIFs are more costly to the government than the use of attractively-priced incentive payments.

As you have heard from earlier testimony, the buyout program at DoD has been successful at reducing the size of the DoD workforce. It has been so successful, in fact, that it now serves as the model for the plan now before the Congress.

However, DoD faced a very different situation in its effort to downsize its workforce compared to downsizing the rest of the Government.

First, an important factor that serves to distinguish between DoD's experience and the current situation, is the target population for the buyouts. While DoD's buyouts were offered to a wide range of employees, it is highly probable that this round of buyouts will targeted at employees in the Federal managerial ranks. This will be done in attempt to reach the 1-to-15 supervisory-to-employee ratio called for in the report of the National Performance Review. This fact casts significant doubt on whether the success of the DoD program can be duplicated on a government-wide level. Since the employees at this level are usually higher-paid, they are less likely to be enticed by a \$25,000 cash incentive than some of their lower-paid counterparts in the Federal service.

A second factor that influenced the success of the DoD's buyout program was the use of the incentive at defense facilities that had already been selected for closure or were in imminent danger of being placed on the base closure list. Obviously, in situations like these, there is an added impetus in an employee's decision to accept the cash-out payment.

A third factor involves geographic location. Many DoD employees who took the VSIP are located at military bases in non-metropolitan areas where the cost-of-living is generally lower than in the major cities with large Federal employee populations. At such locations, the \$25,000 may have greater appeal.

This leads us to question whether the financial value of the incentives, as contemplated by this legislation, will be sufficient to convincingly attract the target numbers of managers and employees the Administration seeks in order to reach its downsizing targets.

To succeed, the VSIP will need to be priced at an attractive level. It will need to work and work the first time.

We are uncertain that it will work, as currently proposed, and question whether a maximum \$25,000 VSIP will be sufficient to make it a cost-effective proposition for the Government and the Federal workforce.

Therefore, we propose that:

First, the VSIP should be the greater of the severance pay entitlement or \$25,000. Currently the legislation proposes that it be the lesser of severance entitlement or \$25,000.

Second, the 2 percent annuity penalty, for every year short of the eligible retirement age, should be waived. Many FMA members have stated that they would be willing to retire, if it were not for this penalty. They also point out that a one-time payment of \$25,000 is not nearly sufficient to offset the reduction of their annuity. If the buyout proposal is to succeed in enticing people to retire, then this penalty must be waived.

FMA fully recognizes that a waiver of the 2 percent penalty would violate the "pay-go" provisions of the 1990 Budget Enforcement Act, unless that law is amended. If the Administration and Congress intend to make government work better and cost less, they should change whatever laws are necessary to achieve that aim.

Third, the VSIP should be made tax-exempt when its employee-recipient uses it to promote a healthier economy, increase savings, or promote job creation. The value of a \$25,000 VSIP payment is reduced to a net after-tax payment of as little as \$17,000 in some cases. This reduced value lowers the attractiveness of the VSIP. Therefore FMA believes that the VSIP should be tax-exempt if the recipient:

Rolls-over the payment into the Thrift Savings Plan or an IRA;

Invests the payment as start-up funding for entrepreneurial activities, such as starting up a business; and

Uses the money for retraining or continuing education activity.

FMA applauds the focus on employee training and retraining contained in this legislation. As the Clinton Administration moves forward in its efforts to reduce, reorganize and relocate many Federal programs and activities, training will become

vital. FMA agrees with OPM Director King that "employee training will be increasingly necessary as we seek to create a multi-skilled workforce suited to rapidly changing needs." By lifting current restrictions and allowing agencies to select the most effective and economical types of training Federal employees may receive, this legislation takes a large step in making the goal of a multi-skilled workforce a reality.

In addition, as the restructuring effort gets underway, the Administration and Congress should consider a policy that mandates the cross-agency placement of involuntarily separated employees through aggressive use of the Displaced Employee Program, administered by OPM. All external hiring by agencies should be required to utilize qualified, displaced Federal employees from the same geographic area, before considering non-Federal candidates. Such a policy would provide the Government with the dual benefits of a hiring pool filled with highly qualified and highly trained employees, while at the same time also reducing the costs of unemployment.

In conclusion, while FMA is pleased with the Administration's recognition of the need for separation incentives, we are concerned about the extent to which "reinvention" efforts have excluded management organizations and their concerns.

FMA believes that attempts to create a 1-to-15 supervisor-to-employee ratio, as the NPR report calls for, may be short-sighted. Agencies and their mission and operation differ too widely to rely upon a supervisory ratio as a rule of thumb for downsizing.

If agencies are to succeed in downsizing their operation, they'll need to bring managers and supervisors into the reengineering process that rethinks what the work of each agency is and how it must get done. This should involve the work of agency-level partnership councils and other collaborative mechanisms.

FMA looks forward to working with this Committee, Congress and the Administration in the effort to restructure the Federal workforce.

Once again, Mr. Chairman and Madam Chairwoman, thank you for the opportunity to appear before you today on this important issue.

Ms. NORTON. I thank both of you, Mr. Shaw and Mr. Moyer. Your testimony was especially vital because in a real sense you have most to gain from these buyouts because if we are to believe what the goal of reinventing government is, which is to reduce the layers of management, this is no reflection on the managers in the Federal Government. We are lucky to have been able to retain the upper level employees we have. They are some of the most talented in the country.

Throughout the United States of America there is a different kind of workplace developing which is more cooperative, less hierarchical and no question that managers are being downsized everywhere.

I urge you to work with us, Mr. Moyer, beginning tomorrow. We don't want to slow them down if we can possibly help it, although I must say I take your points, especially about the DOD experience. Here I have emphasized that I didn't think RIFs were a way to accomplish reform. RIFs are a way to accomplish the downsizing that DOD needed to do. We have a different mission and it is not clear to me from testimony we heard this morning that the Administration officials see the mission as different; that is to say that it is about greater efficiency for their 100,000 and not downsizing.

While I applaud the DOD experience and believe that it has been extraordinary in its proaction, in its energy, in its sheer intelligence, the fact is they have a spur that I would not like to see here which is that you all can go one way or the other. You can decide which way it is. Therefore, everybody in the system got ginned up because everybody knew what was at the end of the line.

Therefore, you are right; DOD is far from gospel here except for its energy and its determination not to give up. But it doesn't have the spur. We don't have the spur and therefore I am interested in

what you say about the \$25,000. Is the government being penny wise and pound foolish here? Are they asking for RIFs for people of the kind you represent in order to get them out, which means that they will then have to pay more money?

Mr. JERRY SHAW. In my testimony, is a report of a study recently done in the private sector. It has not yet been published, but we have permission to use the paper from the author, a professor at University of Michigan. It shows that in the private sector among the age group 51 to 61 where buyouts have occurred that when the mean buyout that was offered was \$26,000 and \$4,400 additional annuity, it was turned down. When the mean buyout offered was \$34,000 and I believe 8.8 percent additional annuity, the offer was accepted. The exact figures are in my testimony. But this is a very, very cheap attempt to get employees in the senior levels, in the higher pay levels to leave in contrast to what the private sector has had to offer and what private sector experience and studies have shown has been effective. So \$125,000 is a very small amount.

Ms. NORTON. This is very important testimony. We are not going through all this to have a bunch of folks come out that make the government less efficient and don't aim at the people you represent.

Mr. JERRY SHAW. I will be happy to provide a copy of that report to the subcommittee staff.

Mr. MOYER. While NPR talks about injecting better business practice into the way the government works, it is quite surprisingly here that we don't have any kind of market projections by the Office of Personnel Management and any kind of analytical way that has tested the appeal of this product, if you will, in terms of its acceptance rates among Federal employees notwithstanding the DOD experience. So what we otherwise have to base our thoughts upon is anecdotal evidence, and certainly the anecdotal evidence of our membership, nearly 20,000 strong throughout the Federal Government, is that this buyout formula will not have the kind of appeal that will create the numbers that OPM is suggesting.

Ms. NORTON. I went at OPM on 252, I think I should have gone at them on \$25,000. That is to say, where did that number come from. I will ask staff to try to get them to rationalize this in light of this testimony we have received today.

What a waste it would be to have to go through this again, and that is probably what we would insist if we learned it wasn't enough. And your proposal about tax incentive, particularly if it turns out to be revenue neutral, then that is something we would want to look more at.

Mr. MOYER. If I might, the danger of not succeeding with 25,000 or, actually, after taxes 17,000, is that it will create the dynamic we all want to avoid, and that is saying that we will not only avoid the RIFs, or facing RIFs, but also the message that take it this time because a better deal will not come along.

We will be forcing ourselves into creating the better deal which will thereby create greater skepticism that the bidding will continue to go higher and higher.

Ms. NORTON. You are absolutely right. Our credibility is on the line here as well.

Let me finally ask you about the 90 days, because there was testimony from one of you at least that 90 days was not enough of a window.

Mr. JERRY SHAW. We do not think 90 days is enough, Madam Chairwoman. I really think that when you are telling someone that is at the end of their career, or you are saying this is the end of your career and if you want another one you have to go out and start all over again, that we should give them a little time 90 days to do a financial analysis and to test the market to see if there are other jobs that are available that you could do, is not enough.

Ms. NORTON. Well, 90 days is three months. The notion you have to find another job in that three months, I don't think, is in this package.

Mr. JERRY SHAW. I understand that, but in the private sector the studies show that over 50 percent of the people who took the early buyouts had to get a job somewhere else.

Ms. NORTON. I can understand that. Some of these people will be too young to be retiring for the rest of their lives, but why should the government have to give you enough time not only to figure out the financial implications but also get yourself placed in another job? Six months perhaps—

Mr. JERRY SHAW. The Vice President has committed himself in the NPR to outplacement programs for jobs, number one; and, number two, if you don't you will just be paying unemployment for a year and a half.

So if you give them a month of outplacement assistance and help them find a job that will cause them to take this and save the government 17 months or more of unemployment compensation, it seems to me like that is a net savings.

Ms. NORTON. Well, what is your recommendation, then, for the window?

Mr. JERRY SHAW. That agencies be required to establish an outplacement program and that they work with the employees that are interested in this buyout to see what jobs are available that they can fill.

Ms. NORTON. I have no problem with that. I want to know the 90-day—you said the 90-day.

Mr. JERRY SHAW. We recommend six months.

Ms. NORTON. A six-month period?

Mr. JERRY SHAW. Yes, ma'am.

Ms. NORTON. Thank you both very much. The testimony essentially of the unions is that it is indispensable because we will not get the payout they say they want unless we incentivize your members. Thank you very much.

Mr. MOYER. Thank you very much, Madam Chairwoman.

Mr. JERRY SHAW. Thank you very much.

Ms. NORTON. Before I close the hearing, I would like unanimous consent to put the statement of the Honorable Dan Burton in the record. So ordered.

[The prepared statement of Hon. Dan Burton follows:]

PREPARED STATEMENT OF HON. DAN BURTON, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF INDIANA

I want to thank Chairwoman Norton and Chairman McCloskey for holding this hearing today on H.R. 3218. This legislation would implement several of the rec-

ommendations of the National Performance Review as it pertains to federal employees.

As one Member who is working hard to bring federal spending under control, I welcome many of the recommendations contained in the National Performance Review. However, I strongly believe that these recommendations should be the beginning, and not the end, of discussion on how we can reduce unnecessary federal spending and make the government work better for its citizens.

Buy outs and early retirement have helped many businesses in the private sector to reduce their work forces while minimizing layoffs. If Congress and the President are serious about significantly reducing federal employment, then I think we need to look very seriously at this approach. I trust that our witnesses' testimony will help illuminate me and my colleagues as to how buy outs and early retirement might work if utilized on a larger scale by the federal government. In addition, I believe that it's very important that federal employees are well trained to do their jobs, and I look forward to our witnesses' views on the provisions in H.R. 3218 which deal with federal employee job training programs.

Ms. NORTON. This hearing is adjourned.

[Whereupon, at 3:05 p.m., the subcommittees were adjourned.]

H.R. 3218, THE FEDERAL WORKFORCE RESTRUCTURING ACT OF 1993

TUESDAY, OCTOBER 19, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS,
Washington, DC.

The subcommittee met, pursuant to call, at 2:18 p.m., in room 311, Cannon House Office Building, Hon. Eleanor Holmes Norton (chair of the subcommittee) presiding.

Members present: Representatives Norton and Morella.

Ms. NORTON. The hearing will come to order. This afternoon, the Subcommittee on Compensation and Employee Benefits continues its consideration of H.R. 3218, the Federal Workforce Restructuring Act of 1993 providing government-wide authority to agencies to offer voluntary separation incentive payments of up to \$25,000 to employees who resign or retire early from government service.

Last week's hearing left several important questions unanswered. We need to know the basis for the administration's determination that Federal personnel levels should be reduced by 252,000 positions. Is this target a reflection of anticipated reorganizations, efficiency and productivity, or is it budget driven?

Last week's testimony on this point was confusing. What is the nature of the guidance which the Office of Management and Budget has given to agencies regarding the development of their streamlining plans and the manner in which they address the NPR goals of reducing layers of government?

What specific guidance has been given to agencies regarding the use of separation incentive payments as a tool specifically to achieve streamlining? Do agencies need more time for this program to do the work expected? Why do OMB and CBO disagree over the scoring of the bill?

Is the bill subject to pay-as-you-go procedures under the Budget Enforcement Act. Is the 9 percent payment required of agencies necessary to cover the future cost of early retirements?

We hope that the witnesses appearing today before the subcommittee will provide answers to these and other questions.

President Clinton deserves great praise and support for embracing a buyout strategy to ease the weight of reform, however, I continue to rebel at the as yet unsupported assumption that reform can get employee support at the same time that RIFs may be promised.

I am not prepared to travel this route because the evidence is that workers undermine reform when they believe that they are re-

forming themselves out of a job and because we have not seen any information that relates RIFs to specific reform.

The administration has begun commendably with the buyout proposal before us. We will hope to see an emphasis on structured layering of non-essential managerial levels as promised in the excellent National Performance Review report.

I congratulate President Clinton, Vice President Gore and their staffs on the most valuable report I have seen the government draw in many years. I welcome all of the witnesses and look forward to their testimony.

Our first witness, I am pleased to welcome Mr. Philip Lader, Deputy Director, Office of Management and Budget.

STATEMENTS OF PHILIP LADER, DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, AND JAMES L. BLUM, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. LADER. Madam Chair, thank you very much for the opportunity to come today, and I might ask if my previously submitted statement be entered in the record and I can be more informal in response to your questions.

Ms. NORTON. So ordered.

Mr. LADER. I first want to acknowledge, as you have mentioned, that this is the second hearing that you devoted to this proposal, and we at the Office of Management and Budget, and the White House, very much appreciate your willingness to give it prompt and thorough consideration.

Madam Chair, I would like to emphasize some very basic themes at the outset in a more informal manner. The first is this: As you are aware, I have spent my career in the private sector, and people often ask, what is the biggest surprise coming to join this administration. I have to tell you, it is absolutely the quality of the hundreds and hundreds of Federal workers with whom I have had the opportunity to collaborate over these last nine or ten months.

I think oftentimes the hard work, the smarts, the sheer savvy of Federal employees are taken for granted, are given short shrift in private sector conversations.

The second theme that I would like to urge on you today is this: Throughout the private sector, there have been examples of what works and what doesn't work in right sizing of human organizations. What this administration has sought to do, as you pointed out in the National Performance Review and in other areas of White House policy, is to try to pick the best of what is working today in the private sector and apply it to government.

The third theme comes very directly in response to your observation. We seek to avoid, to minimize RIFs. They can be very expensive and extremely countereffective, and consequently, we have introduced this legislation to try precisely to do what you suggest, to use a tool that has been proven in the private sector to assist the administration in accomplishing fundamental National Performance Review recommendations. This is a cost effective way, we believe, to increase voluntary turnover so that the reforms can be implemented more readily. By increasing voluntary, and I emphasize voluntary separations, and promoting retraining, which are the two

sides of this legislation, we expect to minimize the need for layoffs, reductions in force.

The theme, as you know, of the National Performance Review is to create a government that works better and costs less. This isn't just rhetoric. The President and Vice President feel it is an imperative, cutting the red tape and dealing with each of the issues that are addressed in great specificity in this report.

This voluntary separation proposal, Madam Chair, as you noted in your hearing last week, is but one of a very broad range of specific proposals, executive orders, legislative actions, required to implement the vision that the Vice President issued to us in this National Performance Review study.

On September 11th of this year, the President directed all departments and agencies to develop a streamlining plan that addresses these issues, and as you raise the particular questions that you have noted already, I want to explain to you how the 252,000 position reduction will be accomplished with the close oversight by the Office of Management and Budget, but perhaps in not the most traditional way of OMB procedures.

It is done in the context of what is happening all over the country. If you see Sears & Roebuck, Ford Motor Company, Metropolitan Life Insurance, General Motors and the like, one recognizes that buyout packages have become one of the tools used in the right sizing of organizations.

Now, the President also called on these agencies to streamline their organizations by layering, by targeting certain areas of duplicative supervision, of certain categories, which, as we move to procurement reform, changing the nature of Federal employment or the definition of it, as we move ahead in each of these reforms suggested and proposed by the National Performance Review, there will not be the same need for the layers and layers that we currently have.

Beyond that, the President has asked that OMB look to the agencies, the department's efforts to reduce headquarters operations in a cost effective way while ensuring the improvement in the performance of the agency missions, to deal with potential redundancies in regional offices and field offices, and to look particularly at personnel, procurement and other administrative areas for opportunities—not to target individuals, but to target positions as part of this right sizing.

This in many ways is called reengineering in the private sector and it is very much a reflection of contemporary management theory and practice of trying to do more with less.

The President initiated this, through a memorandum. On October 8th, Leon Panetta, OMB's director, wrote to all the agencies asking for expedited action on this, and I would like, Madam Chair, to quote from his letter because it is somewhat atypical of traditional OMB correspondence that might address some of the concerns you have.

He said,

In preparing your plan, you should refer to the September 11th presidential memorandum, the recommendations of the National Performance Review, and look specifically at closing or consolidating field offices, reducing management layering, fuller use of new technology, reductions in regulation and red tape in such areas

as personnel, procurement, budgeting and internal management, and in enhanced employee training and cross training.

He goes on,

Although the categories of positions and unnecessary layers of middle management targeted by NPR should be the principal focus of your downsizing efforts, every opportunity for streamlining should be considered, including simplification of administrative processes and elimination of certain programs. These plans should be implemented through attrition, proposed buyouts, and other means that you determine necessary.

The theme, Madam Chair, is simply this: We are not seeking a Kremlin-like direction from the Office of Management and Budget from all the agencies for an across the board cut or saying here are the 89 pages of guidance as to how you should accomplish this. We are saying that in the President's view, this is the goal which must be accomplished, and each department and agency now has the responsibility, using their own experience, ingenuity and innovation to develop a plan that shows fairness to hard-working Federal employees, but simultaneously accomplishes the President's objective of downsizing the Federal Government.

As we see it, the need for the proposed legislation to increase voluntary turnover and reduce impediments to training is fundamental to this public management reform effort, and as it has been reported, the Department of Defense has successfully used similar buyout authority to accomplish these ends.

The administration, therefore, strongly supports adoption of this proven approach and urges the Congress to enact this bill as soon as possible.

I would be happy to respond to any of your questions.

Ms. NORTON. Thank you very much, Mr. Lader. I appreciate your testimony and your assurances.

[The prepared statement of Philip Lader follows:]

PREPARED STATEMENT OF PHILIP LADER, DEPUTY DIRECTOR, OFFICE OF
MANAGEMENT AND BUDGET

Madam Chair, let me thank you for the invitation to testify at this hearing on the Administration's proposal for a voluntary separation incentive. I recognize that this is the second hearing that you have devoted to this proposal and appreciate your willingness to give it prompt and thorough consideration. This is one of the recommendations of the Vice President's National Performance Review—to provide a proven tool to assist in accomplishing many of the NPR recommendations. It will provide a cost-effective way to increase voluntary turnover so that reforms can be implemented more readily. By increasing voluntary separations and promoting retraining, we expect to minimize the need for layoffs—reductions in force. We all agree that resort to involuntary separations, under current law and procedures, is an extremely disruptive, costly, and morale-breaking process to be avoided.

Before talking about this specific proposal, let me emphasize that what we are about is "creating a Government that works better and costs less." This is more than just the title of the Vice President's report; it is an imperative. As the report highlights, we must cut the red tape; we must put the customer first; we have to get results through empowered employees; and we must commit to more than a piecemeal approach to reform. There needs to be along-term commitment to change the way Government works.

The voluntary separation incentive proposal is but one of a broad range of administrative and legislative actions required to make the vision articulated in the NPR report a reality. As the President has said repeatedly since he first announced the National Performance Review, we want to achieve real change, not just produce an interesting report. That change will undoubtedly require a small Federal workforce. H.R. 3218 is designed to give Federal managers a set of tools to help them restructure.

On September 11, 1993, the President directed all departments and agencies to develop a streamlining plan that addressed issues raised by the NPR. The President's expectation is that one of the results of NPR management reform will be to reduce the size of the Federal workforce. The 252,000 reduction identified by the NPR encompassed the already announced three-year reduction by 100,000 and planned DOD downsizing. Beyond that, however, the President called on the agencies to streamline their organizations by layering—reducing the ranks of middle-managers and supervisors. NPR also pointed to bloated headquarters operations, redundant field offices, and the potential for cutting staff in personnel, procurement, and other administrative areas as opportunities for staff reductions. Beyond that, reengineered basic work processes should result in personnel savings. Reductions will come from implementation of the streamlining plans, not by across-the-board cuts.

To meet the downsizing objectives, the agency streamlining plans must first identify organizations, structures, occupations, and processes that will be affected. It is through the planning for a reformed and improved Government that an agency will identify the categories of personnel most needed for mission accomplishment and those surplus in the reformed structure. With targeted use of the proposed voluntary separation incentive or buyouts and retraining, we hope to make the streamlining process less disruptive to agency operations and more cost-effective to implement, while minimizing the need to take reductions-in-force actions. In this fiscal year, with speedy enactment, we would hope to jump-start the streamlining process and incur savings beginning in 1995 and beyond.

On October 8, 1993, Director Panetta wrote to all agencies asking for expedited action on the streamlining plans. He asked that preliminary plans be submitted to OMB by November 1 so that this planning could be better integrated with development of the President's Fiscal Year 1995 Budget. The final agency plans should be completed by the President's requested date of December 1.

Agency use of the buyout authority, as we indicated, would be subject to OMB approval of a plan, which was requested in Director Panetta's October 8 letters. We are preparing further guidance for the agencies' development of their plans, but expect that most agencies can readily proceed now based on their already intimate knowledge of their missions and customers, and aided by the findings and recommendations of the NPR.

We need the proposed legislation to increase voluntary turnover and reduce impediments to retraining. As has been reported, DOD has successfully used similar buyout authority to such an extent that the need for reduction-in-force procedures have been minimized.

The Administration strongly supports adoption of this proven approach and urges the Congress to enact HR 3218 as soon as possible.

I will be pleased to answer any questions you have. Thank you.

Ms. NORTON. I do have a question on the reductions as such, just so we understand them. We understand that this is not a vote in the committee of the whole so everybody in this room profits from the fact that the District of Columbia does not have full representation in the House of Representatives. Give yourself a clap. We are seeking it, however, in which case you can expect delays in hearings like this.

We understand that there was a 152,000 figure that the President wants to make for deficit reduction, and we in this committee are very proud of ourselves because we met the President's bottom line. We rearranged some of his priorities so that it wouldn't fall so inordinately on workers because two-thirds of his discretionary cuts would have come from workers, and the unions deserve a lot of credit because they cooperated with us so we could get a package everybody could live with while meeting the President's bottom line.

And this subcommittee and its staff went through a torturous labor to get the President his 152,000, so you can imagine when 100,000 gets put on top of that, we are mildly curious and a little concerned.

I would like to know if the extra 100,000 represents a net figure representing the work force after agencies have been permitted to fill one out of every two vacancies created by VSIP, or do you anticipate that they will have to make adjustments in filling positions in order to reach your target?

In other words, might not be able to fill positions at all, or far fewer than the one out of every two.

Mr. LADER. No, you are correct in observing it is not an absolute hiring freeze, though some agencies or bureaus may choose to have freezes as one of the tools of this. It is a net reduction of 252,000 employees or positions over this five-year period. If I might go into a little more detail, the 100,000 was identified in the President's executive order issued this past February and so the Vice President's recommendation was a total of 252,000. That number did not just appear in thin air: let me go into a little detail to give some of the basis, the logic for that number.

There is no precise science in determining in a government of more than two million civilian employees what is the right number for downsizing, so I am not going to enter into a—make a particular claim that one specific number is the only number, but I want to, one, give the context for the selection of that number, and secondly, give some of the methodology and the thought process.

The context of it is what is happening throughout American life. If we think of all of your constituents, all Americans, we know that every-day life has changed, when we go to the grocery store and we check out, there are fewer people there. There are scanners, bar codes on products. When we bank or invest, we do it by touch tone phone. When we go to the drug store, an inventory has changed because a toothbrush is bought. It is done by technology to some inventory location thousands of miles away.

All Americans are aware that there has been a profound management and technological revolution which has transformed the way organizations work in America, but that management and technological revolution has left our Federal Government virtually untouched. The challenge we had is to say, what has been happening in the private sector, in not-for-profits and in businesses and what should be emulated by the government? So if you look at the sheer background for this, you see Apple with a 15.6 reduction, you see IBM with an 11.5 percent reduction, you look at General Dynamics Land Systems Division at 28 percent, U.S. West, 15 percent.

In terms of order of magnitude, the 12 percent is not unrepresentative of what is happening throughout the country. But there was a specific logic, Madam Chair, that I would like to address for you as to how this number was arrived at.

The National Performance Review examined the positions, not individuals, but the positions in all the agencies and found that there are approximately 700,000 positions which can be categorized as supervisory, middle management, and in the administrative process area of personnel lists, budget and the like. That is one out of every three civilian employees in the Federal Government, and by rule of thumb, order of magnitude, it was felt that we use more fully technology, as the examples I used of the grocery store, banks and the like, there should be the opportunity to have some signifi-

cant reduction in that 700,000 positions where there is either duplication or a change in management culture can help address that.

Ms. NORTON. Mr. Lader, you know, in that letter that you read, I am not sure I saw nearly the emphasis you are giving here on reduction in management employees where the ratio is much higher than the private sector. I know that you are following much of the DOD experience. The majority of DOD employees who accepted incentives were not the higher paid management that you have spoken of, and indeed, we have had testimony and we have every reason to believe that when you offer \$25,000, this may very well not be adequate as an incentive for workers in the upper salary brackets to retire when this administration has not succeeded, through no fault of its own, I hasten to add, but has not succeeded in stimulating the economy.

Many of these will be people who are certainly not at the end of their work life. They know they are going into an economy of the kind you have just described, where the big corporations have downsized. They are going into an economy where bases are being closed and you expect them to take their \$25,000 for early retirement or for retirement when under Federal law they can stay for the rest of their lives, and go. What makes you believe that in light of your experience with DOD?

Mr. LADER. Well, in light of the experience with the Department of Defense, a significant percentage of those who were offered this opportunity for early retirement or retirement or separation took advantage of that. But you are very correct in raising the question that there may be an unfair application of this, and that is why in this legislation, there is the requirement that each agency submit a plan to the Office of Management and Budget so that the jobs that are targeted cannot be targeted in any way that is not accomplishing the mission of that agency. At OMB we want to look very carefully at these plans to make sure that the thickening that has occurred to which you are referring in certain levels of government is being addressed.

In addition to that, that the individual agencies, the departments, are looking to geographic areas, field offices, headquarters, as well as layers in the organization chart, so that the plan is one that is fair and is effective to improve the performance, but you are very correct. We have to be quite vigilant to make sure that there is not a very simple across-the-board application for certain positions.

Ms. NORTON. A manager may be driven to go to wherever she thinks \$25,000 may look good, and \$25,000 may look good to an employee who doesn't do a thing for your reform efforts. I would like to suggest to you that the OMB letter is not strong enough in this regard. The reason I am concerned is it has already gone out to them and people are already looking to what they have to do, but I can tell you one thing, Mr. Lader, that this committee will be real put out if at the end, the two to one, the doubling of managers relative to workers in the Federal Government isn't gone or substantially gone, because it will mean that somebody didn't quite get it, that the NPR report got it, but it somehow did not get translated.

I would like to ask you about the cost estimates for the bill. Again, I want to reiterate, we have great doubts about \$25,000 doing it, and in light of that, I wonder about the window that you have left. In the VSIP bills for DOD, CIA and NASA, incentive payment authority extended to September 30th, 1997, whereas this administration has asked for a much smaller window. You know what it does frankly, Mr. Lader, it makes this look like deficit reduction. Because if you were interested in efficiency, it doesn't seem to me you would rush out here real quick and say, here is a 90-day window, do or die.

It has all the hallmarks of a very experienced committee of people trying to get their budget numbers down instead of get their efficiency up.

Mr. LADER. Well, I would suggest to you that it may be seen in the other context as well. If we are going to undertake such broad public management reform as the Vice President has recommended and the President has accepted in the National Performance Review, we have to get about this business, and one of the key things is the right sizing of the different bureaus, agencies and departments, so that they have the categories of staff to perform the missions of those agencies.

I agree with you. In the ideal world, we would take a longer period of time and perhaps it would look less like deficit reduction motivated as you contend, but I submit to you that to implement these public management reforms, we have to get to work quickly. You should note, however, that although there is the 90-day period, the 90-day period is a time to be selected by each agency, and if an individual accepts this voluntary separation, this buyout incentive, if you will, it may, under agreement with the agency, actually be implemented in the following fiscal year.

Ms. NORTON. I am concerned with the agency having time to do the kind of surgical assessment that I think is required here. Not all supervisors or managers you can afford to lose.

Mr. Lader, I have the disadvantage or advantage, according to how you see it, of having run a very complicated Federal agency, the Equal Employment Opportunity Commission, when it was in great trouble, and I have to tell you that my familiarity with what it takes to match up your work load with what you need in the field and in headquarters does not tell me that managers who haven't done this for reform, but have almost always done it only to get rid of people, are capable of getting themselves together in 90 days and doing it right. I wanted to say for the record that I think that that is a risk you are incurring hereby giving these people a far shorter period of time than you have given others.

They are going to have to rush and get it done. We are going to hold you responsible for their having done it absolutely correctly, since you have set the 90-day window and you have rushed to this committee, which has been more than happy to accommodate you, but only if you were willing to take the risk that you may end up with your goals unmet, and then, Mr. Lader, do not come back here and say, we need some RIFs because somehow they didn't get rid of all the people we now know they should have gotten rid of, because we are going to say, we don't want to hear that.

We are going to say, well, why didn't you take that into account when you insisted on 90 days. We are going to say that from this podium, Mr. Lader, that we told you that wasn't enough. And I am going to say I told you so, I told you so and I told you so, because RIFs are only going to occur, as far as we are concerned, when we have seen that every other conceivable alternative has been exhausted, that you are just top loaded with people who have no work to do and that the fault is not anybody's, including not yours.

I just want everybody to know it now. I see that the Ranking Member has come. We are only on our first witness, and I wonder if she has any comments she would like to make.

Mrs. MORELLA. Thank you, Madam Chair. I think I would like to make an opening statement which won't be very lengthy, if I may.

I appreciate the urgency of this second meeting on H.R. 3218. I recognize also that both this subcommittee and the Subcommittee on Civil Service, who have joint jurisdiction over this legislation, will have markups on this bill this week.

I am pleased we have a number of witnesses from the administration. I am sure—I know what they will say, even though I may not have had a chance to review their testimony because most of them sent up their materials late and your staff, Madam Chair, had to work extremely hard at the last minute to prepare for this hearing. However, I do look forward to hearing our witnesses and certainly welcome them.

I do notice that there is a cadre of people who went over to testify on the Senate side this morning. I guess picking up on the first meeting that we had, maybe they have come up with some of the answers that we didn't have at that first meeting; but Madam Chair, I found that that last hearing was very useful. It was very important to hear from the unions and hear their concerns and suggestions and as you will recall, each of us last week was concerned about the right-sizing, the right-sizing of the government by 252,000 employees in terms of a reduction, and I request at the outset that all of our witnesses address this concern, and as I expressed last week and as reiterated by OPM, the origin eludes all of us.

Another theory that I heard since then is that the number is budget driven, that perhaps to achieve the targeted savings, the total number of Federal employees was divided into the anticipated dollar savings and therein or as a result, the 252,000 figure was obtained. Certainly that is not a very scientific method.

As an ancillary thought, there is now a proposal before us in the Congress to raise the retirement age for Federal employees from age 55 to 65 over a 20-year period. This would be starting in January of 1996. The savings anticipated an estimate by the Congressional Budget Office over the next five years is \$190 million.

It is further estimated that the savings will be \$5 billion annually once the retirement age has been raised to 65, and I am going to just take this opportunity to express my opinion on that particular measure. At a time when we are trying to make retirement separations voluntary so that there will be a minimum need for layoffs, I believe that the raising of the Federal retirement age is entirely counterproductive and misguided. Indeed, I have also heard

from Federal employees and constituents that their well made plans for retirement would have been for naught.

As an example, several employees who have called me had the years of service but are too young to retire. Now, in their late 40's with more than 25 years of public service, they are looking forward to retirement at age 55. To make these people, who are generally in the CSRS, work until they are 65, I think, would be totally contrary to their expectation.

The legislation, my constituents think, is a form of blackmail. Leave the government now or you will have to work another 10 to 15 years. The witnesses may want to also address that in their testimony. Having said that, Madam Chair, I look forward to hearing more of the testimony on H.R. 3218 and later ask questions.

Ms. NORTON. I thank Ms. Morella for those important remarks.

I have only a couple of more questions, Mr. Lader, and appreciate the responses you have been able to provide.

Ms. Morella spoke of the Senate hearing this morning. I am informed that Mr. King of OPM stated at that hearing that the 90-day window is a maximum and that agencies could offer the incentives for less than the 90-day period. I am asking you if that is so. If that is so, I am asking you if OMB would consider making 90 days mandatory in order to allow agencies time to do their work correctly and in order to allow employees time to consider their futures.

We had testimony from those representing employees we most wish to target, those at the upper end, SES employees who said that they believe their members are considering what was at stake and would want to contact financial advisors, family, think about it, and the 90 days, they felt, would leave many of their members simply to let it pass. So I am asking you if you regard 90 days as a minimum—I recognize this was not OMB testimony, and if OMB or OPM, rather, regards it as a minimum, if you would consider regarding it as a time that agencies must be prepared to spend.

Mr. LADER. The bill, you are correct, would require that no more than 90 days be taken, but the agencies can use less than that period. I would not support personally the notion of having a mandatory OMB regulation of 90 days, but I would certainly ask, and I will, any agency seeking less than that to demonstrate what extraordinary reasons they might have, what requires less than the 90 days for the reason you just stated.

Ms. NORTON. So if that is the case—when people tell you that you may be cutting off your nose to spite your face, that they are going to be—people that represent them now, testified last week, that there are going to be a number, a significant number that will refuse to go in 90 days, but may go if they had a wider window. Why do you say, you have to take the 90 days and do your job right? What is the point?

Mr. LADER. Madam Chair, the 90-day window can be offered any time over the next year or year after passage. And so if it is applied six months after the bill is enacted, the individuals would have the equivalent of nine months to think through what action they might take actually in that three-month period.

Ms. NORTON. I understand that, too, but they are not thinking until they know they are in that time period in the way they ought to be thinking, at least for many of them.

Mr. LADER. And the bias we would have at OMB is that each of the agencies should allow the full 90 days.

Madam Chair, you flattered me in a way a few minutes ago that you may have had no idea about when you said that this letter from OMB didn't seem to be specific enough or tough enough. That is the first time I have ever heard anybody say anything like that about OMB.

I am actually flattered by that. We believe that in this huge Federal Government, trillion-and-a-half-dollar budget, 4 million plus employees, for us to have set rules in something as delicate, impacting families all across this country, that apply in absolutes would be wrong, that we should offer—

Ms. NORTON. You can't turn that argument around on its nose now. It is the 90-day rule that would give people the very flexibility we are told they need. You simply can't make the case that you are going to be better off by going through this, finding somebody should have taken more time than sending him back.

I must tell you right now that unless I hear a better answer than that, I am going to amend this statute to say that agencies must take 90 days. In light of the fact that you have given far more time to other agencies, in light of the fact you tell me this is not about budget reduction, but about a virtual surgical understanding of where cuts should be made, in light of the fact that agencies have not done this before, and in light of the fact that the employee organizations have said that you put your own program in jeopardy by 90 days if they asked for a longer period of time.

I think those answers are better than the ones you are giving me right now.

Mr. LADER. I can only give you the answers that are the accurate reflection of the position.

Ms. NORTON. I understand.

Mr. LADER. And our position is our bias will be to have the 90 days, but if an agency has an extraordinary reason for less than that—

Ms. NORTON. Give me an example of such a reason.

Mr. LADER. Madam Chairman, I cannot, in my intellect, think of all the reasons in a government of 4 million employees that perhaps an agency would need less time or think it prudent. We want to leave that option open, but 90 days is the bias and we would move forward on that basis.

Ms. NORTON. Mr. Lader, I am all for the kind of flexibility that OMB apparently has belatedly begun to show under the Clinton administration. I must say that weighed against the bias you say you already have in favor of 90 days, and the testimony is virtually unanimous we have received, that your time period is too short. I haven't heard a reason why we should not require 90 days to be taken and tell people in advance, don't go running back to OMB. Give employees at least the maximum time that the bill allows which we have heard is too short a period of time anyway.

Mrs. MORELLA. Madam Chair, just on that point, if I may, I am surprised to learn that an agency, then, could decide that 30 days

would be the maximum window of opportunity. I didn't even realize that, because it seems to me an agency determines its eligibility to a great degree also. So given that, they are really turning the screws in terms of who is going to be eligible for this situation.

Mr. LADER. Let me simply urge that that point came up as one point in two-and-a-half hours of testimony and Mr. King made that point in a technical response to the question as to the reading of the bill. It was in no way a matter of his advocacy of that, I believe, and it certainly would not be my advocacy of that particular position. It was his technical response to a reading of the bill.

Ms. NORTON. Moving along, because we, at least, have an understanding of one another, and I understand your concern again, Mr. Lader. I think it hurts the credibility of a bill because, again, the more you rush it, the more it looks like you really are about deficit reduction. The more you say this is in consideration of the employees, for goodness sakes, anybody that goes out here on this market now is taking a chance and taking a risk when they don't have to do so.

At the very least, if you are going to give them the most minimum time conceivable, at least make that minimum time minimum—make that minimum time as maximum as you can.

We have an important question, though, that was left open by the testimony last week and it has to do with the CBO's cost estimate of the bill. What are the Budget Enforcement Act implications of this bill to the extent that the bill authorizes incentive payments not already authorized or appropriated under the Omnibus Budget Reconciliation Act of 1993?

Why does OMB believe that this bill does not create pay-as-you-go problems?

Mr. LADER. Let me respond with the technical response and then give a common sense summary, if I might.

We at OMB do not agree with CBO that the bill will increase direct spending under the Budget Enforcement Act. And our position, as well as CBO's, consistent with the way that we view such matters, is that the voluntary separation incentive legislation permits agencies to offer financial incentives that must be funded from their discretionary appropriation.

In other words, it is not a pot of new money. It comes out of already allocated budget discretionary funds, but the legislation leaves the retirement statute unchanged. It does not directly require retirements, and so because OMB has a strict constructionist view of not scoring items unless the legislation directly requires it, it does not do so.

It is a bit of a theological argument, if you might, because CBO states in their letter that in the long—in the mid and long term, this legislation will result in considerable savings to taxpayers, but it points out that in their view, it is likely to enhance and accelerate retirements, which is exactly our objective. And because of the way CBO looks at that, their view is the acceleration of the retirements, people retiring sooner than they might have, requires that more funds be spent sooner, leading to their view.

Now, because OMB has taken this position, it would not lead to a sequester and therefore it is not really a, we believe, a matter of practical significance. In effect, the commonsense response is

this: By having a 9 percent mandated contribution to the retirement plan, any potential additional costs (which have been estimated based on 14-years of actual experience) will have been covered. Over the long run, it would not require new dollars on the mandatory side, and because there are no additional discretionary funds, the agencies are using funds they already have. There is no new money. It is budget neutral.

The additional funds in the short term will be offset by the fact that the pension's longer term monthly payments will be the lower amounts. But that is the reason for the difference. I would hope that what amounts to really a theological view of the difference of scoring would not in any way change the common sense wisdom of using this buyout tool.

Ms. NORTON. I have asked a number of questions. I am going to call on the Ranking Member at this time.

Mrs. MORELLA. Thank you. I think maybe it is the theological explanation, but it needs some spiritual guidance along the way.

I am just curious about what assurances we have that the eliminated positions will not be filled.

For instance, the unwanted personnel, given the option to leave, the position being vacated and then filled with wanted personnel. Can you see that possible scenario? Are there any assurances in there that we are not going to muddy the waters and use this as a reason for getting rid of some people and then hiring someone else for those positions?

Mr. LADER. Yes, there are some assurances. None are absolute, and I want to come back, when the word "absolute" was used before, I always get concerned when absolute is the term of reference.

The requirement is that we would look to no more than one replacement for every two buyouts. Some discretion is permitted on this. The reason is because the buyouts are not directed to individuals. They are directed to positions, categories of employment, particular jobs that are filled, and it may well be that an agency has an abundance of people in one category, but a very dramatic need in another category, and so it may need to, while we are on a FTE system, reduce the FTEs in the prior category and hire somebody in the second category. That is why we use the term right-sizing.

Now, you are correct. There is nothing that would stop the manager from hiring somebody to replace one of the two individuals in that prior category, but we would hope that that would reflect a different set of skills to perform that job, because in any job classification, you can't precisely say that any two human beings are going to bring the same set of skills to that job, but that would be the exception.

What we are looking to are plans that show true delayering, looking at headquarters, field, regional staffs, and looking at the different respective strengths and needs of that particular agency.

Mrs. MORELLA. So many elements that enter into the dimension to make it really work out, and I guess you have hit on a number of those possibilities and the hopes therefor.

Also, are there any prohibitions against contracting out when you do the right-sizing or whatever you want to call it,—downsizing we call it. Because I have before me, in terms of Federal contracts an awful lot of contracting out right now that is taking place, and

I have a feeling that this plan could enhance that, increase it, promote it. Would you like to comment on that?

Mr. LADER. The administration is very sensitive to that and while we do believe that there is a proper role for certain outsourcing based on specific expertise and specific needs of the government, at the same time we are very concerned that that not happen in the absolute, if I might refer to that term.

The guide is this: There is no separate pool of dollars. If individuals under the Budget Enforcement Act, individual managers have a lower budget to operate their bureau, agency, department, then if they are reducing staff, the dollars simply aren't going to be there for them just immediately to let somebody who previously was a government employee have that service performed by someone as a government contractor. So the control on that, not absolute, but the control on that is managing by budget in that sense. But we want to be very concerned that inherently governmental functions are not contracted out, and we shall be watchdogs on that.

If I might add one further answer to the previous question, because I think you weren't satisfied in my response to the methodology in getting to the 252,000. I pointed out the context of what is happening in the private sector. I pointed to the 700,000 positions that are one area. But let me add two other themes.

It was found that in our Federal Government, we have a ratio of managers to front line workers of one to seven. The average in the American business community is one to 15, and that suggests that the span of control must be broadened through fuller use of technology, through greater empowerment of employees on the line to make decisions for themselves, and so part of the OMB review of these plans will be to say, how are you delayering to eliminate some of this unnecessary supervision?

The final point, if I may. Increased productivity. Each of the plans must demonstrate to us at the Office of Management and Budget how this right-sizing comes hand in hand with increased productivity in that department and agency to be realized over the mid term, two, three, and four years.

So if you put that together, I hope—maybe it might not be totally satisfactory to you, but might give you a better sense of the thought process at which this 12 percent reduction was derived.

Mrs. MORELLA. Theoretically, it sounds great and so we hope it is going to work out in that there are so many other aspects of it. Just one final point if I might, Madam Chair. I have heard from some constituents who say they represent some significant numbers who have had close to 20 years experience.

Now, they indicated that something that might be considered in the way of sort of a sweetener. Rather than even considering the \$25,000 package, what they would find as a great incentive would be to be given the five years toward retirement. Has that been considered and what is your opinion of something like that?

Mr. LADER. It was considered. It is not the administration's proposal. We suggest that there should be a variety of tools to accomplish this right-sizing: attrition in certain areas, hiring freeze, voluntary buyouts, and as necessary, reductions in force.

[The information referred to follows:]

The Administration considered the option of adding five years to age or years of service. However, because this option would change retirement law and directly increase retirement outlays, it would have violated the pay-as-you-go requirements of the Budget Enforcement Act or required offsets to comply with the Budget Enforcement Act. Given the tools already available and being proposed in this bill, we do not believe that it is necessary or desirable to propose such a change to retirement law.

Mrs. MORELLA. I have no other questions, Madam Chair. Thank you.

Ms. NORTON. Thank you, Ms. Morella. Indeed the administration believes they can even go 30 days and make a decision, but we are going to try to help you out on that one.

I have one final question that was left from last week where we were confused, and that is concerning the 9 percent agency contribution. I wonder if you would explain that and exactly how it offsets the cost of an early retiree's annuity, if at all?

How did OMB determine 9 percent was an accurate reflection of the cost of early outs to the government?

Mr. LADER. Well, the 9 percent was determined by the Office of Personnel management and it certainly is acceptable to OMB. The logic is this. The 9 percent represents the additional cost to the government of the early retirement. In other words, the difference between the cost of early retirement and the cost of normal retirement. An employee retiring early under the Civil Service Retirement System receives an annuity that is reduced 2 percent each year for every year that employee is under age 55, but this reduction is not an actual computation or reduction and it doesn't fully cover that cost.

Therefore, it was found through checking 14-years of data 1975 to 1989, that 9 percent would represent the amount sufficient to cover that spread or that difference, and CBO in its letter to the Congress has indicated that that is seemingly an appropriate number.

Now, we have a very serious problem here. The Civil Service Retirement Fund that this administration has inherited, has a \$600 billion unfunded liability. And we wanted to be sure that the agencies, by using this buyout voluntary incentive package, were going to be paying the full freight and not leave the retirement plan in worse shape. The 9 percent, based on that 14-years of data and the actuarial computations done by OPM suggest, with CBO's view as well, that that is adequate to cover the actual cost of the accelerated retirements.

Ms. NORTON. Thank you very much, Mr. Lader. I appreciate the excellent way in which you have taken head on our very direct questions and I appreciate your testimony here this afternoon.

Mr. LADER. Thanks for the opportunity.

Ms. NORTON. I would like to call Mr. James L. Blum, Deputy Director, Congressional Budget Office at this time.

Mr. Blum.

Mr. BLUM. Thank you, Madam Chair. Madam Chair and Congresswoman Morella, I appreciate this opportunity to discuss the cost issues associated with the administration's proposal to offer separation incentive payments to Federal employees in civilian agencies who voluntarily resign or retire early from government service.

As you request in your letter of invitation, I will limit my remarks to a brief summary of my prepared statement. I ask that the statement be included in the record.

Although agencies have not yet submitted to OMB detailed plans for using the authority to make incentive payments, experience at both the Department of Defense and the U.S. Postal Service can be used for making assumptions about the potential cost impact for the Federal budget.

Last week, the Congressional Budget Office gave the committee a cost estimate for H.R. 3218, the bill embodying the administration's proposal. The cost estimate is summarized in tables 1 and 2 in my prepared statement.

The CBO cost estimate is presented in two parts: first, the increase in direct spending that would result because of the earlier retirement of some employees who would receive incentive payments; and second, the cost to agencies from appropriated funds in making the incentive payments and paying an extra charge to the Civil Service Retirement System for the added cost of early retirement.

The increase in direct spending, in CBO's opinion, should be charged to the pay-as-you-go scorecard. We believe that a direct result of using the authority to make incentive payments for voluntary separations will be a short-run increase in retirement benefits above the levels assumed in the 1994 budget resolution.

Under our assumptions, this increase would amount to more than \$800 million over the next three years. After 1996, however, annuity payments would be somewhat lower because employees who retire early would have lower benefits than if they had remained longer in government service.

The increase in direct spending would also be partially offset by the agencies' payment of the 9 percent charge against the salaries of early retirees. This would be a permanent change in law and under our assumptions would produce nearly \$300 million in savings for the government over the next five years.

We estimate that the cost to the agencies of H.R. 3218 would amount to \$2 billion in 1994. This cost would have to be absorbed in their 1994 appropriations. It would not add to the projected budget deficit for 1994. In all likelihood, agencies would have some added personnel costs in 1994 as a result of the incentive payments, but there would be substantial savings in personnel costs after 1994 as a result of the reduction in employment.

The amount of savings depends on how many employees are induced to leave Federal employment by the incentive payments and the extent to which agencies replace them.

We did not include these savings in personnel costs in our cost estimate because the proposed legislation contains no provision to ensure that agency appropriations will be reduced as employment falls. In effect, most if not all of these savings will be needed to stay within the appropriation limits set by the Omnibus Budget Reconciliation Act of 1993. Therefore, the savings have already been taken into account in the 1994 budget resolution.

Under our assumptions, the authority to make incentive payments should make a significant contribution to meeting the administration's goal of reducing Federal civilian nonpostal employ-

ment by 252,000 over the next five or six years. Most of the reduction, I should observe, is planned to take place in the Defense Department.

Based on budgetary and other information that we have received, the reductions at DoD could total 160,000 over the 1994 to 1999 period.

The incentive payments to be authorized by H.R. 3218 could result in employment reductions of as much as 85,000 in the civilian agencies if no employees receiving payments are replaced. Even if civilian agencies replace one out of every two employees who are given incentive payments, the total reductions in employment (civilian agencies plus DoD) would be quite sizable.

Assuming that the Defense Department's civilian employment does fall by 160,000 over the next six years, the 85,000 reduction in civilian agencies could also be met through a partial freeze in hiring. Assuming, for example, that 5 percent of the work force voluntarily separated each year, which is a conservative estimate, the government could reduce employment by 85,000 by filling only about three out of every four vacancies that occurred. But if the reductions were concentrated in particular agencies or were not spread evenly over the next five to six years, the incentive payments authorized by H.R. 3218 would provide a very useful tool for achieving the employment reductions without major disruptions in service.

Experience at DoD and the U.S. Postal Service suggests that incentives can be used effectively as a tool to reduce the Federal civilian work force. Such efforts will have costs that are likely to be higher, however, than relying on other methods, such as hiring freezes, early retirements, or layoffs. Some of this higher cost results from making incentive payments to employees who would have retired or resigned anyway without the payments.

For example, our cost estimate assumes that only about half of the employees who would be given incentive payments would retire earlier than they would have otherwise.

Depending on how well agencies plan their employment reductions, their efforts could also involve a great deal of reorganization, retraining, and other activities, but over the long term, savings from reduced personnel costs should more than offset any short-term costs.

Our analysis of different downsizing techniques suggests that these savings will total many times any cost—provided, of course, that the reduction in employment is permanent and the agencies do not rehire.

That concludes my oral statement, Madam Chair, and I would be happy to answer any questions that you or Congresswoman Morella might have.

[The prepared statement of Mr. Blum follows:]

PREPARED STATEMENT OF JAMES L. BLUM, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Madam Chair and Members of the Subcommittee, I appreciate this opportunity to discuss H.R. 3218, the Federal Workforce Restructuring Act of 1993. My testimony today will review:

The costs to the federal government of the proposed legislation;

The contribution the legislation might make to meeting the Administration's announced goal for reducing federal employment by about 252,000 through 1999; and

Some findings of the Congressional Budget Office (CBO) regarding the use of cash incentives at the Department of Defense and the U.S. Postal Service.

THE COSTS TO THE FEDERAL GOVERNMENT OF H.R. 3218

H.R. 3218 would allow civilian agencies of the federal government to establish programs that would offer separation payments to encourage employees in the civil service to retire or resign in fiscal year 1994. The amount of the separation payment per employee would be the lesser of \$25,000 or the amount of severance pay the employee would qualify for under involuntary separation. Employees who accept the incentive and wish to retire must qualify under current rules for voluntary retirement. We assume that the executive branch agencies will request and that the Office of Personnel Management will grant widespread use of authority for voluntary early retirement, as available under existing law, in conjunction with the use of separation incentives. H.R. 3218 has implications both for the direct spending scorecard under the pay-as-you-go system and for appropriations that are enforced by discretionary caps.

DIRECT SPENDING

Direct spending would increase under the bill because some employees who retire after taking the incentive would receive their annuities earlier than under current law. CBO estimates that the costs of the additional annuity payments would accumulate to \$792 million through 1998 (see Table 1). Throughout the federal government (except for the Department of Defense, the Central Intelligence Agency, and the General Accounting Office, which already have the authority to provide separation payments), about 250,000 employees will be eligible to retire or retire early in 1994. Our cost estimate assumes that 35 percent of employees eligible to retire under regular voluntary rules and 20 percent of employees eligible to take early retirement under reduced age and service requirement would accept the incentive and retire. These rates of acceptance are based on experience at both the Department of Defense (DoD) and the U.S. Postal Service (USPS) and assume some targeting by agencies in the future.

TABLE 1.—EFFECTS ON H.R. 3218 ON DIRECT SPENDING, 1994–98

[By fiscal year, in millions of dollars]

	1994	1995	1996	1997	1998	Cumulative five-year
Annuity payments	248	443	137	- 18	- 18	792
Agency payments of 9 percent	- 127	- 13	- 14	- 58	- 61	- 273
Total	121	430	123	- 76	- 79	519

Source: Congressional Budget Office.

Based on results from a program at the USPS, we expect that 65 percent of regular retirees and 40 percent of early retirees who take the incentive and retire would have retired at the same time anyway, without the incentive. The incentive payments therefore would induce approximately 29,000 employees to retire earlier than they would have otherwise. The benefits paid to these retirees constitute the increase in direct spending. We assume that these people would retire one or two years earlier. As a result, initial spending for retirement benefits under the incentive program would exceed the baseline. Beginning in 1997, however, savings would result because people who retire early accept an annuity that is lower than the one they would have had in the absence of an incentive.

This proposal would also require agencies to contribute to the retirement trust fund a total of 9 percent of the salary at the time of retirement of all future involuntary and voluntary early retirees in the Civil Service Retirement System. This requirement would extend beyond the limited period during which agencies can make incentive payments. Receipt of this payment into the trust fund offsets direct spending. The purpose of the 9 percent payment is to fully reimburse the retirement system for the cost of early retirement. Under present law, the 2 percent reduction in annuities for each year before age 55 for early retirees is not sufficient to cover the cost of early retirement.

AMOUNTS AUTHORIZED FOR APPROPRIATION

The government also would incur costs that would be funded by appropriations. These costs accumulate to \$2 billion through 1998 (see Table 2). The largest component of this cost is the incentive payments, which total an estimated \$1.7 billion in 1994. We assume that all retirees, more than 60,000 in total, would receive a \$25,000 separation incentive and that more than 24,000 resignees would accept an average separation incentive of \$7,500.

TABLE 2.—EFFECTS OF H.R. 3218 ON OUTLAYS, 1994–98

[By fiscal year, in millions of dollars]

	1994	1995	1996	1997	1998	Cumulative five-year
Incentive payments	1,703	0	0	0	0	1,703
Agency payment of 9 percent	127	13	14	58	61	273
Payment for unused leave	265	-133	-133	0	0	0
Total	2,095	-120	-119	58	61	1,975

Source: Congressional Budget Office.

The cost of agencies' payments to the retirement trust fund of 9 percent of final salary for all early retirees would be an estimated \$127 million in 1994, \$13 million in 1995, \$14 million in 1996, \$58 million in 1997, and \$61 million in 1998. These estimates assume an average of about 3,000 early retirements annually in 1995 and 1996 and about 12,000 annually in 1997 and 1998.

The payout for unused annual leave would be \$265 million in 1994. The average payment for unused leave is assumed to be \$3,800 for retirees and \$1,400 for resignees. These payouts are offset in later years when separating workers would have retired anyway.

I would like to point out that the proposed legislation could result in substantial savings in personnel costs. Over the long run, those savings could total many times the estimated cost. For example, assuming an average salary for separated workers of \$35,000, payroll savings for the 85,000 workers CBO assumes would leave government could total about \$3 billion per year—summing to \$15 billion over five years. CBO does not include these pay and other savings in the cost estimate, however, because the proposed legislation does not contain a provision to ensure that appropriations to agencies would actually be reduced. In effect, most if not all of these savings will be needed to stay within the appropriation limits set by the Omnibus Budget Reconciliation Act of 1993.

MEETING THE ADMINISTRATION'S EMPLOYMENT REDUCTION GOAL

The National Performance Review (NPR) proposes reducing the federal government's civilian, nonpostal work force by 252,000, or 12 percent of the current level, through 1999. Assuming, consistent with the President's budget, that a reduction of about 10,000 will be accomplished in 1993, then 242,000 reductions would have to be made in 1994 through 1999.

Many factors will determine the ability of the proposed early-retirement and incentive program to achieve the targeted reduction, including how fast the incentives are carried out and how concentrated the reductions are by occupation and geographic location. Generally, the more evenly reductions are spread over time and place, the easier it would be to achieve them without layoffs and other major disruptions in the work force. More definitive analysis of the possibility of success for the employment reduction efforts will have to wait until detailed agency plans are available in December of this year.

Based on information currently available, however, it would appear that the Administration may be able to achieve the required level of reductions without too much difficulty. Budget and other information from DoD suggests that reductions planned there will total 160,000 over the 1994–1999 period. That means that civilian agencies would have to make only 82,000 reductions to meet the goal of 242,000 through 1999. If CBO's estimate that about 85,000 workers would leave civilian agencies under the proposed legislation is accurate, then total separations for that period would reach about 245,000, exceeding the level targeted by the NPR for the same years. Even if civilian agencies replaced half of the 85,000 employees that CBO estimates would leave, total civilian agency and defense reductions would still reach about 200,000, which is a substantial step toward the goal. Remaining reductions could easily be achieved through a freeze on hiring.

Moreover, even a reduction in employment of 85,000 could also probably be achieved with a partial freeze on hiring. If the drop in employment were spread evenly over the six years from 1994 through 1999, needed annual reductions would amount to about 14,000. Assuming that 5 percent of the work force voluntarily separated each year, which is a conservative estimate, the government could meet its target by filling only about three of every four vacancies that occur. But if the reductions are concentrated in particular agencies or are not spread evenly over the five to six years, the incentive payments authorized by H.R. 3218 would provide a useful tool for achieving the reductions without major disruptions in service.

Of course, the overall number of workers who leave is only one consideration. The success of efforts to reduce employment without significantly disrupting the work force will also depend on the ability of agencies to separate employees they can afford to lose and not replace. Otherwise, efforts to reduce employment would have to be accompanied by concerted efforts to retrain and relocate workers, some layoffs, and potentially some costly rehiring of new personnel to fill any resulting gaps in skills. As described below, agencies have had varying degrees of success in targeting incentive offers toward the right employees.

EXPERIENCE WITH SEPARATION INCENTIVES AT THE U.S. POSTAL SERVICE AND THE DEPARTMENT OF DEFENSE

The USPS and DoD have had experience with separation incentives. These two agencies have managed to achieve reductions with differing degrees of disruption to their work forces and differing costs. We drew upon their experience in preparing our cost estimate for H.R. 3218.

The USPS carried out an ambitious restructuring of its work force in the fall of 1992. To abolish 30,000 positions, the USPS offered an incentive of six months' salary to all employees eligible for early or regular retirement. Because the offer was made generally and was not targeted, the USPS made incentive payments to 48,000 employees. The plan therefore provided more than enough separations to meet reduction goals and avoid layoffs.

The data also suggest that the USPS offer increased the number of workers who took regular and early retirement. In other words, not all of those employees would have left if the incentive had not been offered. For example, the number taking regular retirement was several thousand higher than normal. This increase reflects the fact that the percentage of those who were eligible to retire, and did so, exceeded normal rates.

The success the USPS achieved in encouraging separation, however, meant that it paid incentives to almost two-thirds more employees than it had positions to abolish. These extra payments are part of the reason that an incentive program can be much more expensive than other methods of separating workers, such as a hiring freeze or layoffs. The USPS estimates that the bonuses cost some \$860 million. In addition, only about 13,000 of the workers who left were in jobs the USPS hoped to abolish. To vacate the remaining positions, the USPS was forced to move incumbents into other jobs, which involved the cost and disruption associated with downgrading, relocating, and retraining. With such efforts, only a few employees now remain in jobs the agency hoped to abolish. Thus, the USPS was able to achieve many separations, but not without some disruption to its work force. In addition, most of the decrease in positions has been offset by an increase in temporary workers and overtime hours.

The DoD, the Secretary of Defense, under authority granted by the Defense Authorization Act of 1993, may offer cash incentives to employees as a way of avoiding layoffs. These incentives supplement efforts to reduce employment by means of a hiring freeze that has been in operation at the agency since 1990.

DoD's experience with its incentive program offers both parallels and contrasts to that of the USPS. Like the USPS, DoD has succeeded in attracting a significant number of employees to take incentives and leave government service. In 1993, about 40,000 employees were offered incentives, 30,000 of whom accepted them. These incentives will cost DoD over \$600 million this year. DoD has managed to use its incentive program, as intended, to avoid many layoffs. In the absence of incentives, CBO estimates that DoD would have experienced a total of 16,300 layoffs over two years—6,500 in 1993 and 9,800 in 1994. For the first three-quarters of 1993, layoffs totaled only about 2,000.

Moreover, DoD's efforts to target incentives toward specific groups have probably helped to ensure that the workers who separated actually vacated an abolished job. At DoD, commanding officers in organizations facing layoffs can limit incentives to employees in particular occupations. If the number of employees accepting incentives exceeds the number of jobs to be abolished, DoD limits acceptances based on

seniority. Although the results are not yet in, DoD's efforts to target incentives appear to help to ensure that the workers taking the incentives are those the agency would like most to separate, thus reducing the kind of relocation and other disruptions experienced at the USPS.

On the downside, DoD, like the USPS, has had to pay many incentives to accomplish the state objective of the program—avoiding layoffs. According to CBO estimates, the 30,000 incentives paid would help to avoid the much smaller number of layoffs that would otherwise have been made. In addition, DoD may have been even less successful than the USPS in avoiding paying workers who already planned to leave. Although data suggest that retirements in 1993 were over 40 percent higher than the normal level, resignations occurred at about normal levels. One of the problems in DoD's plan is that the prospect of separation payments may make separation rates low because employees know that DoD has authority to offer incentives for five years. Under H.R. 3218, that is less likely to happen as long as the Congress makes it clear that incentives will not be offered again.

CONCLUSION

Experience at DoD and the USPS suggests that incentives can be used effectively as a tool to reduce the federal civilian work force. Such efforts will have costs that are likely to be far higher than relying on other methods. Depending on how well agencies plan their employment reductions, their efforts could also involve a great deal of reorganization, retraining, and another activities to achieve the planned reductions. But over the long term, savings from reduced personnel costs more than offset any short-term costs. CBO's analysis suggests that these savings will total many times any costs—provided that the reduction in employment is permanent and agencies do not rehire.

Ms. NORTON. Thank you very much, Mr. Blum. Your testimony was very useful in answering—anticipating some of my questions.

I do have a couple questions for you, however. Will the imposition of the high costs of the 9-percent agency contribution in your judgment and in light of shrinking agency salary and expense accounts deter agencies from utilizing the authority, the new authority?

Mr. BLUM. I don't think that it would deter them, but I think it would help focus their plans on how these incentive payments are used. I think the concern that has been expressed by this committee, for example, is that these incentive payments should be used selectively, targeted toward the positions that the administration and the agencies want to eliminate.

If, however, the incentives are offered very broadly—for example, to everyone who is now eligible to retire at the regular age or to retire early under the requirements for early retirement—then they could be very costly. So I think the 9-percent charge, in addition to helping meet the cost of making these payments, will actually provide an incentive to the agencies to be more selective in their use of this authority.

Ms. NORTON. What is your opinion concerning the efficiency of the \$25,000 maximum? Is that level likely to get the level of—the high level employee the government is after to accomplish the delaying of management it believes is necessary for reform?

Mr. BLUM. I think that remains to be seen. Judging from the experience of how this authority has been used, which underlies our assumptions, the average salary of people who we think would accept payments is about \$40,000 to \$45,000 a year. It is clearly not the higher salaries of higher-level managers. So I think there would be—

Ms. NORTON. Is that based on the—do you get at that level likely to accept incentives from the fact that it is \$25,000 or less that peo-

ple will be required to take? Why do you believe it is \$45,000-a-year employees?

Mr. BLUM. That is just what the experience at the Defense Department and the Postal Service has been, but they had a—

Ms. NORTON. They were trying to get rid of folks. They weren't doing reform aimed at managers and high level folks, and I wonder, therefore, if that experience is instructive enough.

Mr. BLUM. Well, I think you make a good point, Madam Chair, and, frankly, I don't know whether that will be sufficient. We don't assume that everyone who is currently eligible for either regular or early retirement will accept by any means. Our cost estimate assumes, for example, that of the people in the civilian agencies who are eligible for regular retirement, about 35 percent might take up the offer, and about 20 percent of those who would be eligible for early retirement might take it up. Mind you, the experience has been with people who are eligible for regular retirement and take this. We are talking about people whose average age is in the early 60's. For the early retirees, the age tends to be much lower. Average age is around 53, for example.

Ms. NORTON. Thank you very much. I have other questions that I would like to submit to you in writing.

Mr. BLUM. Certainly. We would be glad to answer them.

Ms. NORTON. Mrs. Morella.

Mrs. MORELLA. I am trying to figure out the 252,000. Reading from your testimony, you said the National Performance Review proposes reducing by 252 thousand or 12 percent and then you said, assuming consistent with the President's budget that a reduction of 10,000 will be accomplished in 1993. Then it leaves 242,000; and then you say DOD—you believe that DOD's reductions will total 162—160,000 over the 1994—1999 period, which then leaves 82,000 for the civilian agencies to reach the goal of 242,000. Is that correct?

Mr. BLUM. That is correct.

Mrs. MORELLA. DOD, then, you believe, is going to—

Mr. BLUM. Is going to make the major contribution to this.

Mrs. MORELLA. Major contribution of 160,000 so we are really looking to 82,000.

Mr. BLUM. That is how we arrive at our estimate. The 160,000 comes in the following way: About 45,000 of that is assumed to be achieved in fiscal year 1994 as part of the President's budget plan. The reports that we have had from the Defense Department, from their bottom-up review that went on during the summer, suggest that another 115,000 reduction in civilian employees would occur over the 1995 to 1999 period. That is how we came up with 160,000. So we simply subtracted that figure from the overall goal set by the administration, which clearly includes the Defense Department to determine what remained to be achieved by the civilian agencies.

On that basis, it doesn't appear to us to be an outlandish target for the civilian agencies to accomplish over that length of time.

Mrs. MORELLA. Did OMB, CBO and OPM get together in coming up with this plan, this legislation?

Mr. BLUM. No.

Mrs. MORELLA. Did you interact in any way?

Mr. BLUM. No, We are a Congressional support agency; our role is not to help the administration come up with its proposals. We work for the Congress.

Mrs. MORELLA. And how do you feel about the statement made by OMB? Do you agree with the figures that we were given in the previous testimony?

Mr. BLUM. Well, you will notice that Mr. Lader actually didn't include many figures in his testimony, certainly not with respect to the cost of the bill. And with respect to the target for employee reductions, 252,000, that is simply the administration's target. I don't think there is any basis on which I can agree or disagree with that.

Mrs. MORELLA. As our advisors, do you think this will be budget neutral?

Mr. BLUM. Well, budget neutrality can be measured in many different ways, I suppose. Mr. Lader did give an answer to the question about the 9-percent agency payment by saying that, in one sense of budget neutrality, the rationale behind the 9-percent payment is to make the early retirements budget neutral from the point of view of the Civil Service Retirement System over the long run.

We think it is clear that there would be a short-term cost, that retirement benefits paid during fiscal years 1994, 1995, 1996 would be higher than they would have been without this legislation and without the carrot being offered to entice earlier retirements. But over the longer run, the costs to the Federal Government would clearly be much lower, simply because of the very significant savings in personnel costs that would accrue from having lower employment levels.

Mrs. MORELLA. You are saying that about 29,000 employees would be induced to retire earlier than they would have otherwise. Then could I subtract 29,000 from 82,000 and assume that the others then would have retired anyway?

Mr. BLUM. Our cost estimate is based on assumptions using just the experience from the Postal Service and DoD. We haven't seen any of the detailed agency plans that reportedly are being developed now and would be submitted to OMB for review at the end of the month.

However, we assume that incentive payments would be made to about 60,000 people, either those eligible for regular retirement or early retirees. Of those 60,000 payment recipients, we assume 29,000 would be induced to retire earlier than they otherwise would have. The other 31,000, we think, represent sort of the basic cost of having an incentive payment program. They would have retired anyway without the incentive payments.

The cost estimate also assumes that 24,000 people will resign to take the early payments that would be authorized by H.R. 3218, which are equivalent to severance pay. These would be lower than \$25,000.

Our cost estimate assumed that these payments would average \$7,500. Now, I note that this morning the Defense Department, in testimony before the Senate Governmental Affairs Committee, said that their experience last year was that the people who resigned had relatively more years of service than our cost estimate as-

sumed, in that the equivalent severance payment was much higher. It was on the order of \$17,000.

Mrs. MORELLA. I am going to yield back and if I might also get some questions to you for your response, I would like to very much thank you.

Mr. BLUM. I would be happy to respond.

Mrs. MORELLA. Thank you.

Ms. NORTON. Thank you very much, Ms. Morella, and thank you, Mr. Blum, for this important testimony. I would like to next call Marilynn Davis, Assistant Secretary for Administration, Department of Housing and Urban Development; Archer L. Durham, Assistant Secretary for Human Resources and Administration, Department of Energy; and Edwin A. Verburg, Acting Deputy Assistant Secretary for Financial Management and Deputy Chief Financial Officer, Department of Treasury.

Due to circumstances beyond my control, this hearing must end no later than 3:50, 10 minutes to 4:00. I am going to ask those who are testifying, it is important testimony because it tells us something about how this plan is to be implemented or is already being implemented. I am going to ask you to summarize very quickly your testimony rather than read your testimony, which we will study in any case in considerable depth in preparation for the markup on Thursday.

Ms. Davis.

STATEMENTS OF MARILYNN A. DAVIS, ASSISTANT SECRETARY FOR ADMINISTRATION, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT; ARCHER L. DURHAM, ASSISTANT SECRETARY FOR HUMAN RESOURCES AND ADMINISTRATION, DEPARTMENT OF ENERGY; EDWIN A. VERBURG, ACTING DEPUTY ASSISTANT SECRETARY FOR FINANCIAL MANAGEMENT AND DEPUTY CHIEF FINANCIAL OFFICER, DEPARTMENT OF THE TREASURY

Ms. DAVIS. Thank you, Madam Chair, Congresswoman Morella. I am certainly pleased to appear before you today to discuss the Department of Housing and Urban Development's plans for reorganizing and downsizing, or right-sizing as it is called, to meet President Clinton's commitment to restructure the Federal work force.

HUD's mission, as you know, is to help create cohesive, economically healthy communities all across America. Last fiscal year, HUD and other Departments and Agencies began the difficult task of restructuring and redefining the Federal work force. HUD, of course, is on the way, as you may have heard, in moving in that direction.

Last spring the management team at HUD made a commitment to create an agency that works better and costs less, one that provides a greater level of service to our clients, and to that end, of course, we fully support the recommendations of the National Performance Review and we are currently assessing options for implementing the NPR recommendations.

I would just like to speak about two of the long-term and short-term tracks that we are on to try to manage a performance deficit that we were confronted with when we arrived at the agency.

Obviously, the organization has been downsized tremendously already over the last several years by about 20 percent with no regard to the skills that were required or that would be required to confront the challenges of the 1990's.

In the next six to nine months, managing our resource shortfalls will constitute a significant challenge to the Department. To meet this challenge, HUD has developed personnel and functional profiles of headquarters, regional and field offices, to identify critical skills, tasks and functions. HUD is aggressively reviewing its organizational structure.

As you may know, we have been mandated through the National Performance Review to completely restructure our regional offices as well and by implication, our field and some of our headquarters activity as well.

We are using as guideposts our First-Year Priorities, identified management deficiencies and known high risk areas. We are also involved in creating a critical path, which includes retirement options, reorganization options, training plans, technology plans, payroll management, options, and personnel classification, options.

To aid us in our reorganization efforts, we hope Congress will quickly enact the Administration's proposal, the "Federal Workforce Restructuring Act." In anticipation of Congressional action on this proposal, we are considering a range of tactics and incentives to assist us in restructuring our work force.

We anticipate that HUD's downsizing will take several years to fully complete. Full implementation requires a long-term resource management strategy that will entail more significant changes to HUD's programs, to its business practices and fundamentally the way that we do business and manage our resources as a result of that.

Training, of course, plays a key role and under the downsizing scenario, it is even more significant as we try to correct and maintain a skills balance within our evolving work force.

I would like to just note that we are redesigning our training program entirely. We expect to have created a HUD Institute by the end of this year to serve as a center for employee and intermediary training, and to enable our work force to deliver quality products and services to our customers.

We are also moving ahead with a program whereby employees will prepare individual development plans, again, which will serve as their guideposts for development over the next several years. We are looking at technical training, improving that as well, and reviewing it to emphasize a more holistic approach to problem solving so that a solution in one area can possibly be used to resolve issues and reduce work load in other programmatic areas and therefore our people become more fungible.

I would like to close my testimony by saying that at HUD, the Secretary and his management team, the American Federation of Government Employees (AFGE) and the National Federation of Federal Employees (NFFE) are in periodic communications regarding this downsizing effort. Downsizing on the scale laid out to meet NPR and executive order goals requires communication, cooperation and trust at all levels of the department.

We at HUD recognize the significance of these issues and are working cooperatively at all levels to bring about a smooth transition. Thank you. I will be happy to respond to any questions you may have.

Ms. NORTON. Thank you, Ms. Davis.

[The prepared statement of Ms. Davis follows:]

PREPARED STATEMENT OF MARILYNN A. DAVIS, ASSISTANT SECRETARY FOR
ADMINISTRATION, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Chairwoman Norton and members of the committee, I am pleased to appear before you today to discuss The Department of Housing and Urban Development's plans for reorganization and downsizing to meet President Clinton's commitment to restructure the Federal workforce.

HUD's mission is to help create cohesive, economically healthy communities all across America. At the core of HUD's mission are several very strong commitments: a commitment to community, a commitment to family, a commitment to economic lift, a commitment to individual rights and responsibilities, and a commitment to ending spatial separations by race, income, and class. In carrying out these commitments, I recognize that the constraints of the current fiscal environment make it essential to use existing resources more effectively and efficiently through program consolidations, process innovation—fundamentally changing the way we do business—and increased performance.

Last Fiscal year, HUD and other Departments and Agencies began the difficult task of restructuring and redefining the Federal workforce. HUD is well on the way toward implementing Executive Order 12839—one of the first issued by the President—which calls for reducing the Federal workforce by 100,000 employees. HUD's share under this Executive Order was 545 Full-time equivalent employees from FY 1993 through the end of FY 1995.

Beyond this, last spring the management team at HUD made a commitment to create an agency that works better and costs less; provides a greater level of service to our clients. To that end, HUD fully supports the recommendations of the National Performance Review (NPR) and is currently assessing options for implementing the NPR recommendations. The NPR recommendations include: that by end of FY 1998, HUD will eliminate all ten of its Regional Offices, pare down the number of field offices, and cut field staff by 1,500 people; and, increase the span of a manager's control to approach NPR's recommended ratio of 1:15.

To fully implement the Executive Orders and NPR recommendations, HUD must aggressively change the ways that it conducts business. HUD will and must restructure its organizations, reengineer its business practices and retool its employees to build a more effective and responsive workforce to achieve our objectives of improving services to our clients and increasing accountability to the American taxpayer.

As HUD restructures its workforce, first and foremost on our minds is that we downsize smartly. HUD will seek to avoid the skills imbalance that created a "hollow workforce" at HUD during the 1980's. The skills imbalance in the 1980's prevented HUD from carrying out programs and services at an adequate service level and contributed to mismanagement, fraud and a demoralized workforce. The severity of the skills imbalance and the inability to fill critical jobs during the 1980's are today responsible for HUD's "Performance Deficits" in the 1990's. As we work down the deficit at HUD, we will seek a coherent management strategy predicated on the development and maintenance of a well-trained and motivated workforce.

HUD's plans for reorganizing and downsizing its workforce have a short and long-term focus which I am pleased to share with you today.

THE SHORT TERM

In the next six to nine months, managing the "Performance Deficit," or resource shortfalls, will constitute a significant challenge to HUD. By meeting these objectives, HUD will take a giant step toward realizing the President's goal of establishing a new government workforce for the American people.

To meet this challenge, HUD has developed personnel and functional profiles of Headquarters, Regional and Field Offices to identify critical skills, tasks and functions. HUD is aggressively reviewing its organizational structure. In conducting the review, we are using as guideposts our First Year Priorities, identified management deficiencies and known high risk areas. The Department has also undertaken a review of its workload, office support functions, processes, and procedures to reduce HUD's unnecessary work and costly internal requirements.

HUD's Office of Administration has been assigned lead responsibility for developing a critical path for implementing short term action elements in streamlining. Action elements along the critical path include retirement options, reorganization options, training plans, technology plans, payroll management options, and personnel classification options. HUD's current schedule is to have the Department's reorganization and resource downsizing plan completed by December 1993.

To aid us in our reorganization efforts, we hope Congress will quickly enact the Administration's proposal, the "Federal Workforce Restructuring Act." In anticipation of Congressional action on this proposal, we are considering a range of tactics and incentives to assist us in restructuring our workforce. In any voluntary buyout proposal, HUD will seek to meet targets that facilitate the reallocation of resources to high priority, high value activities, and correct existing skill imbalances through selective hiring.

THE LONG TERM

We anticipate that HUD's downsizing will take several years to fully complete. Full implementation requires a long term resource management strategy that will entail more significant changes to HUD's programs, business practices, and approach to resource management.

HUD is seriously examining a broad range of options to consolidate and restructure its programs to reduce "red tape." Underway are initiatives to reengineer ineffective processes, eliminate antiquated procedures and develop new tools to identify opportunities and strategies for improving productivity, performance and resources costs.

Perhaps the most important element of HUD's long term strategy is cultivating a motivated, well-trained, and diverse workforce. The management team at HUD recognized early on, that steps were needed to retool and retrain HUD's workforce to improve our level of service to customers and reduce financial risk.

Under downsizing, training plays an even more significant role as we try to maintain a skills balance within our evolving workforce. HUD is redesigning its Training Program to focus on developing and retaining a quality workforce and increasing the Department's capacity to deliver quality products and services to our customers. We will have established a HUD Institute as a center for employee and intermediary training by year-end. Through the institute we will improve workforce flexibility through skills upgrading and cross-training. HUD is considering options, such as partnerships with other Federal agencies, to minimize capital expenses associated with establishing an institute. HUD is investing in technology to foster distance learning. This initiative will significantly reduce the cost of training delivery to HUD employees and intermediaries nationwide through state-of-the-art telecommunications systems.

HUD is also moving ahead with a program under which employees will prepare individual development plans to identify and foster their individual professional goals and those of the agency. The training flexibilities contemplated by the Federal Workforce Restructuring Act can facilitate our efforts in this area.

HUD's technical training programs are also being reviewed to emphasize a more holistic approach to problem solving so that a solution in one area can possibly be used to resolve issues, improve service or reduce workload in other programmatic areas.

As you can see, we are proud of the initial steps we have taken to retool and retrain HUD's workforce, and more importantly, we are committed to finishing the job.

I would like to close my testimony by saying that at HUD, the Secretary and his management team, the American Federation of Government Employees (AFGE) and National Federation of Federal Employees (NFFE) are in periodic communications regarding this downsizing effort. Downsizing on the scale laid out to meet NPR and executive order goals requires communication, cooperation and trust at all levels of the Department. We at HUD recognize the significance of the issues and are working cooperatively at all levels to bring about a smooth transition.

This concludes my testimony. If you have any questions, I will be happy to respond.

Ms. NORTON. Mr. Durham.

Mr. DURHAM. Thank you, Madam Chair, Ms. Morella. The Department of Energy is pleased to be able to provide comments on H.R. 3218, the Federal Workforce Restructuring Act of 1993. We

want to thank you for giving the Department the opportunity to comment on this most important legislation.

As I am sure you are aware, the department has undergone a dramatic mission shift since the advent of the end of the Cold War. We are very pleased about that, but that has caused us some problems in regard to our work force restructuring. Instead of considering building nuclear weapons and bombs now and being concerned about those types of devices that we are all so pleased are no longer in front of us, we are now concerned about the greening of America.

We are concerned about restoration and environment and a lot of things that people are pleased to see that we are now pointed in that particular direction. But what does this mean? It really means that we now have skill mix problems. Those people that were involved in our nuclear weapons business are not the right ones that we need to perhaps clean up that particular effort.

We are top heavy, if you will. We have a high number of upper level GS people. For example, the Federal Government average grade level is 9.0 and we are sitting at about 11.9 as a grade level average. We need to bring that down. We also are lacking in diversity. We believe that we need to do a better job in that particular area, and all of that has to do with what this legislation will allow us to be able to do, a better job in regard to rightsizing.

Another barrier that we have been confronted with is the fact that the attrition rate that we have been confronted with, which historically has been 6 to 8 percent, is now, over the last fiscal year, only been about 3 percent. So all of these things the legislation will help us to do.

How have we gone about it? Secretary O'Leary has directed us to get into the strategic planning process with quality principles, to allow us to get into rightsizing of the work force and to give us the tools to do this job. In that regard, we have been looking at critical hiring constraints. We have developed a rightsizing and a redeployment strategy.

We have been reallocating our FTEs in regard to that strategic plan and we have also been identifying training opportunities. The skill mix, which I alluded to before, is very, very critical in this proposition, and I think that the legislation before us is one that will help us to do a better job there.

One of the innovative things we have done is to establish a job fair in which we have identified some 400 positions that we could use in the realignment of positions to address this problem of going from the Cold War and into the environmental area that we are very concerned about. It was like one-stop shopping. We had over 2,000 employees come to that two-day affair. That helps us in our rightsizing process.

We have also set up an out placement center and a transition center to give employees an opportunity to figure out how they might handle any type of realignment or if they had the opportunity for early buyout, giving them the insight and also the options that might be available to them if this legislation is passed. But even though we have been relatively aggressive in all these tools that I have been talking about, it still is really not enough, and we really feel that we need to have the early out and the

buyout option to be able to complete the options that would be available to us to be able to do this job.

The extreme obviously would be that we find ourself in a position where we might have a reduction in force, and I think all of us would agree that that is an option that we really are not interested in being involved in. So if we were to receive this authority, we would be very careful in the manner in which we targeted the authority. We would, obviously, be looking at the higher grades. We would be looking at those areas that we are downsizing in to make sure that we could ramp up in the areas that I have identified that our mission shift has been directed towards.

A large percentage of our work force would be eligible. I think, in fact, that we probably have a larger percentage than the Federal Government at large; some 4,400 people or 22 percent of the work force. That gives us a very large opportunity, and by reducing our work force in needed areas, we will also be able to hire new employees with the appropriate skills into expanding program areas and also that would be able to not only give upward mobility opportunities to those people within the existing work force, but would also give us an opportunity to do a better job in diversity for hiring more women and more minorities.

We also plan to use buyouts to address our current low ratio of supervisors to employees, which is 1 to 4.5, which I think is probably very, very low vis-a-vis the rest of the Federal Government. As you are probably well aware, the NPR target is 1 to 15 and I believe the Federal average is about 1 to 7. So we have a lot of work to do in that particular area and the legislation would allow us to do that.

The action provision allowing expanded use of training opportunities and training programs would also be very, very helpful to allow us to go to the private sector, or to allow people to train outside of their particular career area in a means to place them hopefully in the area that we have requirements.

So in conclusion, the Department of Energy is very supportive of the President's Work Force Restructuring Act of 1993 and urges the committee to take timely action regarding its passage. The earlier authorities are made available, the more cost effective the tool will be. Defense I think is a case in point and we believe those lessons learned could be applied to the Department of Energy.

We are very encouraged by the Department of Defense experience in utilizing these authorities which indicates that separation incentives and early retirement programs properly managed are a viable alternative to costly, disruptive and dispirited reductions in force.

Thank you.

Ms. NORTON. Thank you very much, Mr. Durham.

[The prepared statement of Mr. Durham follows:]

PREPARED STATEMENT OF ARCHER L. DURHAM, ASSISTANT SECRETARY FOR HUMAN RESOURCES AND ADMINISTRATION, DEPARTMENT OF ENERGY

Madam Chair and Members of the Subcommittee: It is my pleasure to appear today in support of H.R. 3218, the "Federal Workforce Restructuring Act of 1993." I appreciate the opportunity to share with you our situation at the Department of Energy as it relates to workforce rightsizing and the potential use of the tools provided by the "Federal Workforce Restructuring Act."

CURRENT DEPARTMENT OF ENERGY WORKFORCE SITUATION

We are currently involved in a major initiative at the Department aimed at shifting the priorities and resources of the agency away from activities associated with a defense-based, cold war energy strategy towards an energy program that focuses on environmental clean-up, improved energy conservation, development of alternative energy sources, technology transfer, and increased safety and health at Department of Energy managed sites.

At the present time, the Department's workforce is suffering from a skills imbalance in terms of abilities needed to carry-out our new and strengthened missions. A number of our workers have skills and knowledges associated with programs in the agency that are being downsized. To effectively carry-out our programs will require a workforce with the skills to match our mission.

In addition, we have a very highly graded and "top-heavy" workforce that is not nearly as efficient or diverse as it needs to be to ensure our future success. Our current situation is further complicated by a low rate of attrition which has averaged 2-3% during fiscal year 1993 vs. historical rates ranging from 6-8%.

CURRENT DOWNSIZING, REALIGNMENT AND WORKFORCE PLANNING ACTIVITIES AT THE DEPARTMENT

To facilitate the shift in program emphases and redeployment of resources associated with the Secretary's priorities and the President's Budget submissions, we have drafted an overarching workforce planning and analysis initiative which draws heavily on existing human resources authorities and mechanisms such as retraining and reassignment of staff to help achieve our restructuring goals. We are also focusing on providing outplacement assistance to our employees who wish to explore new careers within and outside the agency as a key element in matching current human resources with Departmental staffing needs. In addition, guidance has been issued to Departmental managers on various means of rightsizing and realigning their workforces using existing personnel tools.

To facilitate needed downsizing, the Secretary instituted a Department-wide hiring constraint in March of this year to allow only limited hiring of staff to meet critical program needs. This hiring constraint has been helpful in allowing the Department to meet interim staff reduction targets and redeploy scarce resources. In addition, we recently conducted a first-of-its-kind internal "Job Fair" which allowed our employees to complete for over 400 positions in Department programs that are in a growth mode. Although we have yet to finalize this process, it appears that the Job Fair will prove to be useful as a tool for achieving some redeployment of internal Departmental resources.

ADDITIONAL TOOLS AND FLEXIBILITIES NEEDED

Notwithstanding our current efforts to rightsize and reorganize our workforce, we need additional tools and flexibilities to achieve needed staff reductions. Given the magnitude of the reductions and redeployment of staff needed to realign resources to support the Secretary's objectives, the current low attrition rates at the Department, and the demographics of our workforce, our analysis indicates that we would be very hard pressed to restructure our programs and staff without the flexibilities provided in the Act. Absent the timely availability of these authorities, the Department will be left with little choice but to utilize reduction in force procedures to force involuntary separations—a most unwelcome prospect. Put another way, the early retirement, separation incentive, and training tools provided by the Act would become an essential centerpiece in the Department's plan for workforce restructuring.

USING THE ACT'S FLEXIBILITIES TO ADDRESS THE DEPARTMENTAL NEEDS

The Department of Energy currently has approximately 4,400 employees or 22% of its workforce eligible for either optional or early retirement. In drawing upon the experience of the Department of Defense in the administration of its "buy-out" program, we assume that a major share of our needed workforce reductions can be achieved by utilizing the flexibilities in the Act. In this regard, we plan to carefully target groups of Departmental organizations and occupations where reductions are needed. By reducing our workforce in needed areas we will be able to hire new employees into expanding programs with skills and abilities closely aligned with our current mission priorities. In this regard, we plan to adhere to the intent of the proposed legislation that only one new employee be hired for every two separation incentives offered.

As we work through our restructuring effort, we will be mindful of the diversity of our workforce, especially at senior staff and managerial levels. Currently, the Department is underrepresented in most major professional employment categories with respect to women and minorities. We hope that the Act will give us the flexibility to continue the Department's goal to create a more diverse workforce.

As you know, Executive Order 12839, entitled "Reduction of 100,000 Federal Positions," placed particular emphasis on agencies reducing the numbers of higher graded, managerial employees. At the Department of Energy we have a disproportionately high percentage of supervisors to employees—our current ratio is approximately 1 supervisor to 4.5 employees. Although there are some good reasons for this ratio, it is much lower than the governmentwide average and substantially below the goal of 1:15 established in the President's National Performance Review plan. Again, we are very hopeful that the "buy-out" and early retirement provisions of the Act will help the Department in addressing this problem. If the DOD experience is instructive, "buyouts" will tend to be accepted by higher grade employees.

Another problem confronted by the Department is that of skills obsolescence in some areas of our workforce. This is especially true in the defense and nuclear energy programs that were the mainstays of the Department's past mission. We see the Act's authorities as particularly helpful in these areas in that a much larger percentage of staff in the defense and nuclear workforce are eligible for both early and optional retirement (approximately 31%) versus workers in other Departmental programs (approximately 20%). Thus, attrition created by the "buyouts" and retirements will tend to occur in areas where reductions, restructuring and new skill mixes are needed the most. This assumption is strongly supported by DOD's experience where the average incentive taker had almost twice as many years of service (26) as the workforce as a whole (15).

One of the Department's great challenges in the years ahead will be to upgrade and expand training and retraining of our technical workforce. Consistent with the shifts in missions and priorities, we will need to assist our employees in preparing for new careers within the Department and to increase efficiency and effectiveness in their current positions. Contributing to the acknowledgement of this need are various internal studies as well as recommendations made by the Defense Nuclear Facilities Safety Board. The provisions in the Act dealing with expanded training authority and the increased use of non-governmental training programs will be of major benefit to the Departmental in its efforts to reshape its workforce, redeploy resources and overcome critical findings by the Defense Nuclear Facilities Safety Board regarding the need to improve the technical capabilities of its staff.

CONCLUSION

The Department of Energy is very supportive of the President's Workforce Restructuring Act of 1993 and urges the Committee to take timely action in support of its passage. The earlier in the fiscal year the authority is made available to agencies, the greater will be its utilization as a constructive tool in the restructuring and downsizing of our workforces. In this regard, we are very encouraged by the DOD experience which indicates that separation incentives are cost effective if properly managed and used in a humane manner as a viable alternative to the high costs and disruptions associated with reduction in force.

Ms. NORTON. Mr. Verburg, recognizing that a vote is on, this is a conference report. I don't have to go, but Ms. Morella should hear as much of this testimony as possible, so would you please summarize your testimony.

Mr. VERBURG. Yes, Madam Chair and Madam Morella. Thank you very much for the opportunity to testify on this legislation.

Ms. NORTON. Speak into the microphone, please.

Mr. VERBURG. Yes. Thank you very much, Madam Chair and Madam Morella, for the opportunity to testify on this legislation. We have been working at the Department of Treasury over the last few months very carefully at implementing what we thought would be coming our way. We contacted other Federal agencies and departments. We worked with our bureaus and we did some research on what has gone on with State and local governments.

Our first step was to conduct a brainstorming session with selected bureaus. We have had some experience with consolidation,

with buyouts and downsizing and we thought it would be helpful to us across all 13 of our bureaus to understand that information.

The second thing we did was form a project team with a work plan and set out a whole sequence of tasks that we thought needed to be done in order to accomplish the legislation when it is enacted. One of those things involved research of the experience of others, such as State and local governments. We found it has not been error-free or problem-free.

Some downsizing actually costs money, so if it is not done properly, it cannot take you where you want to go. So with targeting, with the appropriate application, we really feel we can get there using the tool the administration has proposed.

We also examined the eligible population in Treasury and we found that 15 percent of our employees are eligible, either through regular retirement or early retirement, and 60 percent of our senior executives are eligible for this early out capability.

Another thing we did, we thought was very, very important, we met early on with our budget officers and personnel officers. We made it a partnership in terms of how we would do our plans, collected all their questions and tried to answer as many of them as we could in the guidance that we sent out to them. We also discovered that there are some missing techniques out there and we set about trying to develop them. In terms of one in particular, we created a tool for estimating the cost of budget savings related to each participant.

We now have a computer spreadsheet that allows us to calculate costs and savings and we have trained all of our bureau personnel who are interested in this technique. It is now available to all of them. We also developed a model questionnaire to allow us to ascertain who would participate, who would be the willing participants. We know our population out there.

In addition, we view this as one technique among many, and in our guidance to the bureaus, we elaborated on a variety of techniques in order to allow us to right-size Treasury. We reviewed and commented on the legislation when it was in draft. Treasury, I want to assure you, supports this legislation. The sooner it is enacted, the better in terms of our being able to properly implement it.

The window of opportunity, the 90-days, the sooner that comes, the greater savings that we believe will accrue to us in the Department of Treasury. Also, the ability to spread the departure or separation dates over a two-year period is, we view, very important. The legislation needs to preserve flexibility for departments to designate components of the agency, occupations and particular locations where separation incentives are offered. We encourage you to support that provision in the legislation.

Madam Chair, that concludes my comments.

[The prepared statement of Mr. Verburg follows:]

PREPARED STATEMENT OF EDWIN A. VERBURG, ACTING DEPUTY ASSISTANT SECRETARY FOR FINANCIAL MANAGEMENT AND DEPUTY CHIEF FINANCIAL OFFICER, DEPARTMENT OF THE TREASURY

Madam Chair and members of the Subcommittee, I am Edwin A. Verburg, Deputy Chief Financial Officer for the Department of the Treasury. I am pleased to be here today to discuss the "Federal Workforce Restructuring Act of 1993."

In anticipation of the submission of this legislation, we have been working over the last few months with our bureaus, the office of Management and Budget, and other Federal agencies and departments. We have involved senior policy officials in the Department and they have been very supportive of our efforts. Our overall approach is to work toward downsizing using a wide range of management techniques. The legislation will provide an important ingredient for this direction.

Initially, we held a brainstorming session with bureaus in Treasury to learn from their experience in consolidations and re-engineering of their organizations. We have some examples that occurred before the legislation was proposed by the Administration. The Bureau of Public Debt is in the middle of a consolidation effort, and the Internal Revenue Service has substantial effort underway related to Tax System Modernization. Based on the information we collected from this session, we met with the Office of Management and Budget to see how they were progressing on the legislation and to share ideas.

Another step Treasury took was to create a project team to deal with the day-to-day implementation of early-outs and buy-outs if the legislation is passed. The team:

- Developed a work plan to ensure we address all of the critical steps in the short- and long-run;

- Researched the experience of others;

- Worked to assist in defining eligible candidates and likelihood of participation;

- Determined what tools are available and sources that can be used to support participation; and

- Worked with and developed guidelines for our bureaus.

One of the most helpful tasks we have completed is to meet with those who are in the process of using voluntary separation incentives. Some of our main contacts have included the Department of Defense and General Accounting Office. Additionally, we compiled information from state and local governments that have used similar programs in recent years. Some of our findings were startling:

- Buy-outs should be tightly managed. Savings usually are assured by targeting buy-outs to positions and programs that are to be reduced or eliminated; and

- Poor planning—such as broad eligibility policies—can result in management problems and higher costs.

Based on this information, we sent out additional guidance to our bureaus outlining the cautions that should be considered as they design their plans.

Treasury closely examined information on the eligible population and provided this information to the bureaus. We used computer runs from our payroll system for this purpose. We found that of the employees in Treasury:

- Fifteen percent are eligible for early or regular retirements;

- A greater proportion of the Senior Executive Service is eligible—60 percent;

- The distribution of these numbers varies widely among our thirteen bureaus.

Early on we met with our bureau personnel and budget officers. We shared all available information with these important contacts, and we encouraged participants to surface questions and uncertainties. Our guidance on how to formulate streamlining plans answered as many questions as possible to ensure timely and sound preparation of bureau plans. We further encouraged our bureaus to be forthright in explaining the impacts of reductions. We will use the material they submit to explain impacts and develop our department-wide plan.

Beyond meeting with our bureaus and drafting guidance based on their input, we developed and shared two techniques that are important parts of this process: (1) a model questionnaire that can be used to help bureaus determine who will participate in early-outs; and (2) a computer assisted spreadsheet that enables personnel and budget officers to calculate the savings or costs associated with each departing employee. We have had two training sessions to date for interested bureau staff related to this computer package. We further have provided information on how management can identify organizational components where buy-outs will be made available.

With regard to the plans that will be submitted by our bureaus, we encouraged them to consider a variety of techniques for streamlining our organization. This wide range of alternatives includes: (1) managed attrition—using a portion of regular turn-over to selectively decrease staffing levels; (2) early-outs; (3) consolidation or elimination of functions; (4) program reductions; (5) management or structural changes which will help combine functions or reduce layers of management; (6) productivity savings through investments in technology; (7) new ways of doing business; and (8) other options our bureaus may offer that have not been considered. Flexibility related to retraining our work force as we use these tools will be important.

We reviewed and commented on the legislation while it was being drafted. Treasury supports the legislation; the sooner it is enacted, the more helpful it will be to cost-effective "right-sizing." The three-month "window" provided this year, and the ability to delay separation for up to two years, will enable us to spread the impacts over a longer period of time. The legislation needs to preserve flexibility for departments to designate components of the agency, occupation, and particular locations where separation incentives will be offered.

Madam Chair, this concludes my remarks. I would be pleased to answer any questions that you or the Subcommittee members may have.

Ms. NORTON. Thank you very much, Mr. Verburg. I have a question for all of you.

You perhaps read of the virtual stampede at the Library of Congress when buyouts were offered. Those were buyouts under a deficit reduction authority and not the pointed or targeted buyouts this legislation appears to envision. Do you have a projection of the number of employees who are eligible to retire at this point who might, in fact, participate in the program?

In other words, what are you hearing from your employees? Do the targeted employees, management employees, believe that \$20,000 is enough so that you expect, if not a stampede, a—the opportunity to, in fact, meet your goal?

Ms. DAVIS. I will begin. We have, of the 13,500 employees at HUD, estimated that about 4,000 are eligible for early retirement or for optional retirement. If we look at the Department of Defense's experience and apply that in our case, that would mean about a thousand people.

Ms. NORTON. But those people are spread all the way across the grade level. You are not trying just to get employees out, are you?

Ms. DAVIS. No, we aren't trying to get employees out, but I also just heard the comments that were made about the questionable nature of the attractiveness of the buyouts to lower grade employees. Of the people who are eligible, to whom \$25,000 would certainly provide an incentive to leave now as opposed to stretching their retirement or their departures from the organization over the next several years, we have about a thousand if we were to look at the Department of Defense.

Ms. NORTON. How do you arrive at the thousand? Are those a thousand managers?

Ms. DAVIS. There would be about 40 percent, of those eligible for optional retirement, about 20 percent of those eligible for early retirement. The average salary for those who are eligible in both these categories is about \$52,000, which would mean that they are spread not only at the upper end of the grade levels, but are fairly even spread.

Ms. NORTON. Are you or your colleagues targeting management employees or not?

Ms. DAVIS. We are not—we are looking at functional deficiencies and places where we need to—where there are clear redundancies. This understand, is being—

Ms. NORTON. What is your management-to-employee level at HUD?

Ms. DAVIS. Our management-to-employee ratio is about 1 to 5. We understand that that is below—I mean, that is above, let me put it that way, I guess, depending on how you look at it, where it should be if we look at—

Ms. NORTON. It is pretty awful compared with the private sector, 1 in 15.

Ms. DAVIS. It is. Let me mention some of the things that we think are driving that. First of all, again, there has not been the attention given to sound management and skills mixes in the past. That just has not been there. HUD, like other government agencies, has been the victim, we see now, of holding on for a very long time to a hierarchial management structure that served the government very well many years ago—

Ms. NORTON. Ms. Davis, we are aware of what the problems are. I am truly trying to figure out, your figures are so gross and generic they do not appear targeted. We are very afraid with a 90-day short span here, we end up with not only—that gross figures will lead to gross results, if I can make myself plain, and with your kind of management-to-employee ratio, one would think that DOD aside, average figures aside, that the only way to be successful is to draw a very targeted plan and to do your buyouts at the level where you are overlayered, and I don't hear that in your testimony.

I hear it in the DOD testimony—I mean the DOE testimony, but I didn't quite hear it in yours.

Ms. DAVIS. Again, we intend to do that. A great impetus for us to do that is that we are delayering. We, again, have been mandated to take a look at the regional level and actually eliminating that layer. That layer is a layer—

Ms. NORTON. The regional level consists of employees all up and down the line.

Ms. DAVIS. No. HUD is comprised to a greater extent of lower level employees in the field. The higher level employees at HUD and those which would be targeted to a large extent are at headquarters and at the regional levels. And to the extent that this is being done with—in conjunction with an overall ability to push responsibility down, to get rid of some of the layers that we have that are redundant, we would certainly want to target those.

I will also say that the classification system is also driving our ratio of management to employees. We do not have a track along which we can promote people historically without giving them a couple of people to manage. So, again, in concert with everything else that is going on, we expect that we will be able to improve that ratio dramatically.

Ms. NORTON. That last statement is, I think, very important, that these grade levels do reflect the overgrading that in a real sense has been encouraged by the way in which the Federal Government has managed itself in order to reward people who have been in the service for a long time.

As I said, I have to end this hearing at 10 minutes of 4:00. I do want to encourage you all—I have heard some mention of it. I don't know the extent to which it is true. I don't have the time to find out, but I do want to encourage as much worker involvement as possible. It ought to begin now, not later on in the NPR report, so that at the very least, people feel there has been lots of communication with them, rumors don't start, and people buy into your buyouts.

Thank you very much for your testimony. It has been very helpful to us. It has filled in some of the gaps of real experience that we were looking for. This hearing is adjourned.

[Whereupon, at 3:50 p.m., the subcommittee was adjourned.]

[Additional information for the record is submitted:]

STATEMENT OF HON. JESSE BROWN, SECRETARY, DEPARTMENT OF VETERANS AFFAIRS

I am pleased to respond to your request to provide a statement for the record on the "Federal Workforce Restructuring Act of 1993." Let me begin by adding my support for the provisions of this Act. As VA determines how it can play a part in meeting the President's objectives for downsizing and streamlining the Federal bureaucracy, it is meaningful to us to know that the flexibilities we are likely to need to make targeted employment reductions will be available as a result of this legislation. I would like to focus my comments on our preliminary plans for restructuring and downsizing.

Vice President Gore's "Report of the National Performance Review" (NPR) spells out four overriding principles that must be followed if the Federal Government is to "reinvent" itself and provide higher quality services at reduced cost to the American taxpayer. The customer must come first. Second, our employees must be empowered to get results. Third, we must cut red tape. Finally, we must return to basics. I am in full support of these as guiding principles as we restructure for the future. If these principles are followed to their logical conclusion, a smaller, more highly trained and motivated Federal workforce will result.

The Department of Veterans Affairs (VA) will be carefully examining the application of each of these principles in the coming months in developing our strategic plans as they impact our people and our service to veterans and their families. Our examination must necessarily be mission-driven and customer-focused and particularly mindful of the changing circumstances in which we will operate in the future. Out of our review process we would expect that we will find ways to streamline our operations by decentralizing and consolidating where possible, delegating authorities to the lowest practical level, empowering employees to make decisions, and developing effective ways of holding managers and employees accountable. We will explore ways to improve the morale and productivity of our employees while increasing the quality of our care and services to the Nation's veterans. Each of these has many implications for a transformation in the way we lead and manage people in a new environment.

With regard to our plans for the future, I offer the following thoughts:

Human Resources (HR) Strategic Planning Process—We have begun developing a "people" planning process—one that is collaborative in nature, drawing ideas from throughout the VA, and one that looks at people strategically, recognizing the critical role we will be asking our people to play. It is an approach that is directly linked to our overall approach to strategic management. It is out of this process that many of the initial ideas and initiatives have arisen. These are initiatives that will help us streamline our operations and function more effectively and efficiently at reduced staffing levels. Let me highlight a few for you:

Enhanced Training and Development. We intend to place a major emphasis on training our people in new competencies in both management and in delivery of service to veterans. In an organization with less central control and more decentralized authority, all managers will have a greater span of control and front line employees will be expected to be able to handle situations calling for a greater degree of skill and on the spot decision-making. We also intend to look at development of the next generation of leaders as a strategic component of reshaping the VA. We need to do a far better job of "growing" our leaders in new areas of competency but, more importantly, in a consistent set of values and that they be reflective of the diversity of our veterans and the Nation. Our research indicates that excellent organizations recognize people as assets and invest in them accordingly. I welcome the proposal in the bill before you to refocus the purpose of training on improving individual and organization performance and relating it to the mission rather than on only improving individual skills. We also recognize the importance of the principle in the National Performance Review of reinvesting some of the savings from streamlining in a higher order of ongoing training. We also intend to build a common set of values and management philosophy into all of our managers to establish the "VA way" of managing and leading people.

Decentralization, simplification and delegation. I have already mentioned our intent to move forward on the recommendations to implement these principles. It is our intention to do a top to bottom review of our policies, procedures, processes and

reports with an eye to reduction and simplification. We have already formed task forces to begin examining not only delegation of what had been previously central authorities but to simplify cumbersome processes of personnel, financial management, and procurement, so that as managers assume a greater role in these functions, they do not simply inherit a "broken" process. A large portion of the downsizing savings will arise from a reduction in central control processes, cumbersome paperwork, unneeded reports and other improvements that we will turn to our employees to help us identify. However, I would caution that such a change in responsibility is necessarily linked to greater accountability to ensure that we continue to meet the public trust.

Automation applications. Another critical area for realizing improvements is the application of automation to the services we provide. We have several ongoing efforts not simply to automate the processes we now have, but to reengineer these processes through intelligent rethinking of what we now do, automating where we can realize improvement in service quality and timeliness. Ultimately we will be able to realize a reduction in required hands-on-labor with the opportunity to reinvest or reduce as need dictates. This is the way of the future.

Reductions in management layers—"flattering" the organization. We will be examining all of our overhead, particularly with an eye toward reducing management positions. We are already well down the road in implementing the principles of total quality improvement in all parts of the VA. The next steps are already being piloted, namely the formation of self-directed teams which can manage all parts of the benefits claims process, for example, and can take effective action without moving a claim through layers of review. Similarly, we will be forming teams around many of the issue areas for improvement such as the revamping of classification processes and the redesign of performance appraisal systems called for under NPR. We feel that having a trained cadre of team leaders and team members in many areas of our operations will help us to flatten our organization. This approach also gives us an opportunity to broaden the skills of many people who now specialize in one area. We should also be able to reduce overcontrol and micromanagement that now generates "red tape," thus improving response time to our customers and granting a sense of realized empowerment for our employees.

These are among the ideas and approaches that have begun to reflect our thinking as we seek to implement the principles of a government that "works better and costs less." There will be other specific efforts resulting from piloting of innovative ideas as we bring more of our people into the process of intelligent change. These efforts, too, should help VA in its efforts to deliver better service with a smaller workforce. However, I can assure you that these efforts, like those that are already underway, will be undertaken with the NPR principles as a guide and with our historical mission and the needs of veterans foremost in our minds.

Thank you for the opportunity to provide these comments.



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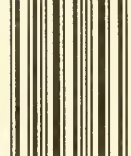


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